AR18

NORCEN ANNUAL REPORT 1991

Norcen Energy Resources Limited is a major Canadian-owned natural resource enterprise with three business segments: oil and gas, propane marketing and mineral resources. Through its core business, oil and gas, Norcen explores for, develops and produces hydrocarbons primarily in Canada, the United States and Australia, and owns and operates crude oil and natural gas pipeline transportation and distribution systems in Western Canada. At 1991 year-end, oil and gas exploratory interest were also held in eight other countries. In propane marketing, its wholly-owned subsidiary Superior Propane Inc. distributes propane across Canada and in the U.S. midwest. In mineral resources, Norcen's principal assets are an 11 per cent equity interest in Iron Ore Company of Canada ("IOC") and a royalty interest in iron ore sales by IOC from mineral leases in Labrador.

At December 31, 1991, Norcen employed 3,272 people, of which 2,319 were employed in the Propane Marketing Division.

The Company's shares trade on The Toronto Stock Exchange, The Montreal Exchange and the American Stock Exchange under the symbol NCN.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary, Norcen Energy Resources Limited, 715-5th Avenue S.W., Calgary, Alberta T2P 2X7, (403) 231-0111. For the purposes of the Province of Quebec, this short form prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained through your dealer or directly from the Company at the above-mentioned address.

New Issue

AR18

Norcen
Energy Resources Limited

$100,000,000
(4,000,000 shares)
8.12% Second Preference Shares, Series A

The Second Preference Shares, Series A will be entitled to fixed, cumulative, preferential cash dividends at a rate of $2.03 per share per annum payable quarterly on the first day of March, June, September and December with the first dividend accruing from the date of issue and payable on June 1, 1986. The Second Preference Shares, Series A will not be redeemable prior to March 1, 1992 but will be redeemable thereafter at the option of the Company. The provisions to be attached to the Second Preference Shares, Series A are summarized under "Details of the Offering".

Retraction Privilege

Each Second Preference Share, Series A will be retractable at the option of the holder on March 1, 1992 at a price equal to $25.00 per share plus all accrued and unpaid dividends.

The Toronto Stock Exchange and The Montreal Exchange have conditionally approved the listing of the Second Preference Shares, Series A. Listing is subject to the Company fulfilling all of the requirements of the exchanges on or before April 24, 1986, including distribution of those securities to a minimum number of public shareholders.

In the opinion of counsel, the Second Preference Shares, Series A will be investments which qualify for investment under certain statutes as set out under "Eligibility for Investment".

Price: $25.00 per share

We, as principals, conditionally offer the Second Preference Shares, Series A, subject to prior sale, if, as and when issued and delivered by the Company and accepted by us in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company by Osler, Hoskin & Harcourt, Toronto, and on our behalf by Borden & Elliot, Toronto.

	Price to public	Underwriters' fee (1)	Net proceeds to the Company (2)
Per share	$25.00	$0.75	$24.25
Total	$100,000,000	$2,800,000	$97,200,000

(1) The Underwriters' fee for the Second Preference Shares, Series A is $0.25 for each share sold to certain institutions and $0.75 per share for all other shares, to a maximum of $2,800,000.
(2) Before deducting expenses of issue estimated at $200,000.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that share certificates for the Second Preference Shares, Series A will be available for delivery on or about February 11, 1986.

BRINK HUDSON & LEFEVER LTD.
SUITE 1500, PARK PLACE
666 BURRARD STREET
VANCOUVER, B.C. V6C 3C4

Wood Gundy Inc.

Offices in principal cities across Canada and in New York, London, Paris, Tokyo, Hong Kong and Barbados

January 29, 1986

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into this short form prospectus:

(a) the Company's Annual Information Form dated February 25, 1985 ("AIF");

(b) the Company's Proxy Circular and Statement dated February 25, 1985;

(c) the Company's material change reports dated March 8, August 2 and August 8, 1985; and

(d) the unaudited interim financial statements of the Company for the three months ended March 31, 1985 contained in the Company's report to shareholders dated May 15, 1985, for the six months ended June 30, 1985 contained in the Company's report to shareholders dated July 31, 1985 and for the nine months ended September 30, 1985 contained in the Company's report to shareholders dated November 8, 1985.

All documents of the Company of the type referred to above (other than confidential reports) filed with a securities commission or any similar authority in Canada after the date of this short form prospectus and prior to the termination of the offering shall be deemed to be incorporated by reference into this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

ELIGIBILITY FOR INVESTMENT

In the opinion of Osler, Hoskin & Harcourt and of Borden & Elliot, the Second Preference Shares, Series A, at the date of issue, will be qualified investments without resort to the so-called "basket" provisions but subject to the general investment provisions for:

(i) insurance companies registered under the Canadian and British Insurance Companies Act (Canada) or the Foreign Insurance Companies Act (Canada), insurers incorporated or organized under the Insurance Act (Ontario), and insurance companies governed by the Insurance Act (Alberta);

(ii) loan companies regulated under the Loan Companies Act (Canada), trust companies regulated under the Trust Companies Act (Canada), and loan corporations and trust companies registered under the Loan and Trust Corporations Act (Ontario); and

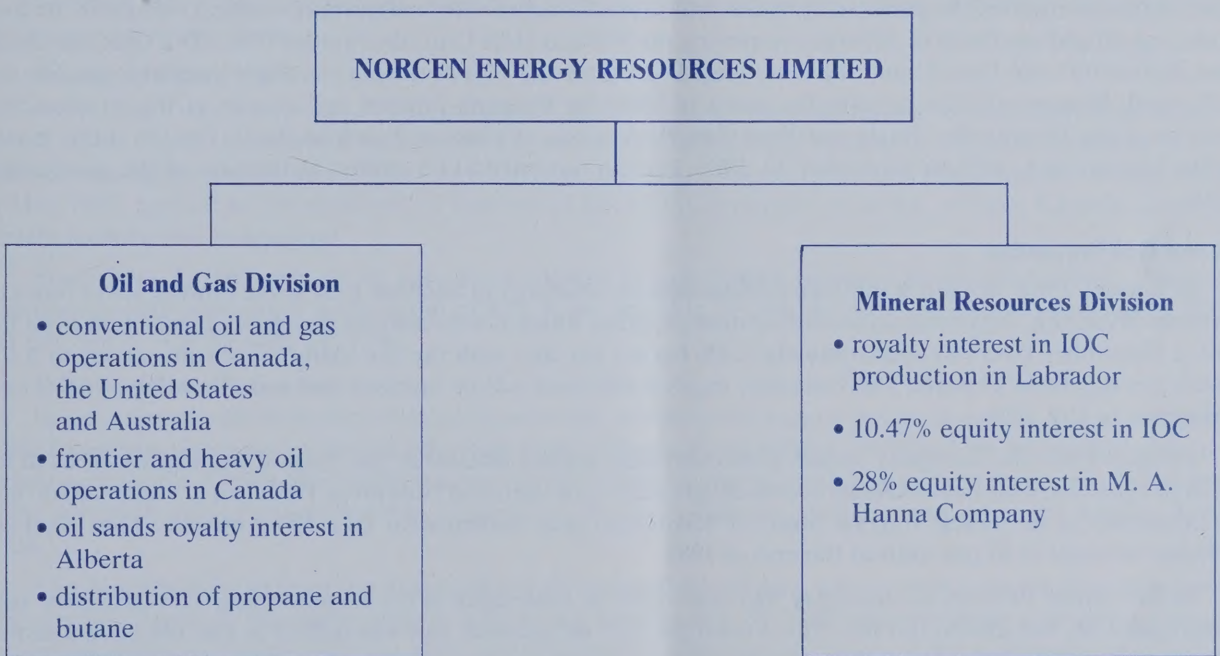
(iii) pension plans registered under the Pension Benefits Standards Act (Canada), the Pension Benefits Act (Ontario), an Act respecting supplemental pension plans (Quebec) or the Pension Benefits Act (Alberta).

In the opinion of Osler, Hoskin & Harcourt and of Borden & Elliot, the Second Preference Shares, Series A will also be qualified investments for registered retirement savings plans and for deferred profit sharing plans under the Income Tax Act (Canada).

THE COMPANY

Norcen Energy Resources Limited (the "Company") is a Canada Business Corporations Act ("CBCA") corporation with its executive offices located at 715-5th Avenue SW, Calgary, Alberta, T2P 2X7. In this short form prospectus, references to Norcen mean the Company and its subsidiaries, unless the context otherwise indicates.

Norcen is a major Canadian-owned natural resource enterprise whose principal business is the exploration for and the development and production of hydrocarbons, primarily in Canada, the distribution of propane and butane in western Canada and in Ontario, and pipeline transportation of oil and transmission and distribution of natural gas primarily in Alberta. Norcen's other business consists of its mineral resources division whose principal assets include a share interest in Iron Ore Company of Canada ("IOC"), a royalty interest in iron ore production by IOC from mineral leases in Labrador and a 28% interest in M. A. Hanna Company.



The following table contains a summary of financial information of Norcen for the indicated periods:

	Nine months ended September 30		Year ended December 31				
	1985	1984	1984	1983	1982	1981	1980
	(unaudited)		(millions of dollars)				
Sales and other revenues	$ 467.4	$ 409.2	$ 570.2	$ 452.6	$ 374.3	$ 265.3	$246.9
Income from continuing operations	81.8	52.7	82.5	56.9	50.0	29.2	55.2
Net income	81.8	69.3	104.3	78.4	70.8	45.8	72.9
Total assets	2,088.5	1,817.7	1,849.9	1,702.7	1,352.0	1,063.2	899.2
Total long-term debt	757.2	434.8	343.7	466.1	294.6	151.8	160.6
Total shareholders' equity	721.0	761.4	787.2	713.5	515.1	472.3	449.2

Note: The Gas Utilities Division, disposed of on September 30, 1984, is accounted for on the equity basis. Net income excludes an extraordinary gain of $8,048,000 in 1981.

RECENT DEVELOPMENTS

Partnership with Gulf Canada

On August 31, 1985, Norcen entered into a partnership arrangement with Gulf Canada Limited ("Gulf") pursuant to which all of Gulf's upstream assets (except for BeauDril Limited, a wholly-owned subsidiary involved in Beaufort Sea exploration) together with the assets of Superior Propane Limited (a wholly-owned subsidiary of Gulf) and Gulf's Edmonton refinery were combined with Norcen's contribution to the partnership of $300 million cash. Norcen's interest in the partnership is approximately 6%.

Norcen may be required by Gulf, or may elect, provided required notices are given, to withdraw from the partnership in which case Norcen's interest in the partnership will be terminated. Notice of such requirement may be given by Gulf between February 1 and April 1, 1986, inclusive, for the withdrawal of Norcen from the partnership on or after March 1, 1986. Norcen may by notice given between April 1 and May 30, 1986, inclusive, elect to withdraw from the partnership at a date acceptable to the partners that is no later than March 1, 1987. Norcen anticipates that it will withdraw from the partnership on or prior to March 1, 1987. On withdrawal Norcen would acquire certain of the partnership assets, which would include 100% of the partnership's interest in the four producing oil and gas fields in Alberta comprising the Wildcat Hills Unit, the Stettler Nisku D-2 Unit, the Snipe Lake Beaverhill Lake Unit #1 and the Fenn West D-2A pool and 70% of the partnership's interest in the Stettler D-3A pool. Norcen will also acquire the assets of Superior Propane Limited and certain of the partnership's interests in the Hebron-Ben Nevis and West Ben Nevis areas of offshore Newfoundland. For the three month period September 1, 1985 to November 30, 1985, Norcen recorded $12.8 million as its share of the partnership profit.

Oil and Gas Properties

In January 1985, Norcen completed a Minnelusa oil discovery at Sandbar East in the Powder River Basin of northern Wyoming. As a result of a development program which is substantially complete, production from the pool in December 1985 was approximately 3,300 barrels per day, with the Company's share amounting to 1,100 barrels per day from 10 wells. The Company expects this pool will be unitized and waterflood operations may commence in late 1986.

In April 1985, the Company acquired an overriding royalty interest in the Natural Buttes Unit in Utah for U.S. $16.1 million. This Unit includes about 230 gas wells. In addition in November 1985, Norcen acquired oil and gas properties in the Black Warrior Basin of Mississippi and Alabama for U.S. $29.5 million. This purchase included interests in 82 gas wells at the end of 1985.

In December 1985, an oil discovery was confirmed at Amauligak in the Beaufort Sea. The discovery well, Amauligak J-44, was drilled in 1984. The Amauligak I-65 delineation well was drilled in late 1985 and a testing program was designed to evaluate representative intervals to determine total pay thickness and productivity of the oil zones. Results released by the operator in respect of the first two tests indicate flows of approximately 7,000 barrels per day from each of two zones. One additional delineation well is planned and at least one other well is anticipated on this structure in 1986. Norcen has a 15% working interest in this project.

Iron Ore Interests

Norcen owns a 10.47% common share interest in IOC and a royalty interest in lands being mined by IOC. A description of Norcen's iron ore interests is set forth on pages 20 to 22 of the AIF. A proposal has been discussed with all of the shareholders of IOC relating to amendments to IOC's contracts with certain shareholders to purchase pellet production from IOC. Subject to certain conditions being met, the terms of the contracts would be extended, would be amended as to volume and price and would increase the rate of Norcen's royalty interest on iron ore pellet production. Based on its understanding and assessment of the proposed amendments, Norcen expects that the implementation of the proposal would not have a material financial impact on it.

M. A. Hanna Company

M. A. Hanna Company ("Hanna") (formerly The Hanna Mining Company) in which Norcen holds a 28% interest effected a number of changes in 1985 with a view to refocusing its efforts into profitable industries. The Butler Taconite Project, which produced iron ore, was permanently closed. In addition, Hanna reduced its 50% interest in WellTech Inc. to 20% and agreed to purchase all of the outstanding debt of the Midland SouthWest Corporation for US $18.3 million. Further, Hanna sold its interest in one eastern United States coal producing operation, announced its intention to sell its interest in a second such operation and acquired the remaining 50%

interest in a third operation. As a result of these changes, Hanna in the second quarter of 1985 reported a non-recurring loss of U.S. $133.5 million and in the third quarter of 1985 reported an extraordinary gain of U.S. $10.9 million and a non-recurring loss of U.S. $11.1 million. Norcen is of the opinion that no write down is required in the carrying value of its investment in Hanna.

Changes in Federal and Provincial Energy Programs

The legislative structure under which the oil and gas industry in Canada operates underwent significant changes in 1985. Agreements have been made between the Government of Canada and the Governments of Alberta, Saskatchewan, British Columbia, Nova Scotia and Newfoundland governing the pricing of oil and gas and the sharing of resource revenue. On March 28, 1985 a new agreement (the "Western Accord") was announced by the Governments of Canada, Alberta, Saskatchewan and British Columbia.This agreement substantially altered the terms of previous agreements respecting pricing, revenue sharing and regulation. Subsequent announcements have been made respecting taxes, incentives and regulations applicable to operations in the Canada Lands, and pricing and regulation of natural gas sales.

Outlined below are the significant aspects of these changes. Current legislation, regulations and agreements are matters of public record.

Pricing of Crude Oil

According to the terms of the Western Accord, the price of all crude oil in Canada was deregulated effective June 1, 1985. Under the previous regime, the Conventional Old Oil Price applied to oil discovered prior to 1974, and was set at approximately $29.75 per barrel in May 1985. The New Oil Reference Price, which averaged $41.00 in May 1985, applied to conventional oil discovered after 1973, synthetic crude oil, oil from Canada Lands and certain incremental production.

Since June 1, 1985, oil prices have been subject to negotiation between buyers and sellers. Prices for reference quality crude were in the order of $37.50 per barrel in December 1985 and were in the range of $28 to $31 per barrel as at January 24, 1986.

Pricing of Natural Gas

In accordance with federal-provincial agreements, the price for natural gas produced in Alberta for sale in other Canadian provinces is set with reference to the Alberta Border Price. Wellhead prices are determined by deducting from the Alberta Border Price certain costs, including transportation costs from the point of production to the Alberta border. Gas produced in Alberta may be sold within the province at less than the Alberta Border Price.

The Western Accord fixed the Alberta Border Price at $2.94 per mcf, where it had been set since February 1, 1985 under a previous federal-provincial agreement. On October 31, 1985 an agreement respecting domestic natural gas pricing and marketing was announced by the Governments of Canada, Alberta, British Columbia and Saskatchewan. Under this agreement, the Alberta Border Price will remain at the current level until November 1, 1986. During the year ending November 1, 1986, prices may be negotiated on a commercial basis for contracts which expire or which producers agree to renegotiate within that period and for certain new contracts. Long-term sales contracts will be required to be renegotiated in respect of price by November 1, 1986, and failing agreement will be settled by arbitration. Effective November 1, 1986, the price of all natural gas in interprovincial trade will be determined by negotiation between buyers and sellers.

Prior to November 1, 1984 prices for export of Canadian natural gas were fixed by the National Energy Board. Effective November 1, 1984, these prices were set by buyer-seller negotiation, subject to the restriction that they must be greater than the Toronto Wholesale Price, currently $4.06 per mcf. The agreement of October 31, 1985 specifies that exports will no longer be subject to this requirement, but prices must equal or exceed the price for natural gas delivered to Canadians under similar terms in the area or zone adjacent to the point of export.

The difference between the export price of Alberta natural gas and the Alberta Border Price is paid into a fund administered by the Alberta Government, and subject to certain adjustments, distributed to all gas producers in the province in proportion to their individual shares of Alberta production. In November 1985, the amount distributed was approximately $0.03 per mcf before royalties. Coincident with the deregulation of natural gas prices on November 1, 1986, this distribution will be discontinued.

Taxation

The Petroleum and Gas Revenue Tax ("PGRT") was introduced as part of the National Energy Program in 1980 as a levy on production revenues net of operating expenses, and is not deductible for income tax purposes.

In 1985, the PGRT rate was 16%, before the 25% resource allowance deduction, or an effective rate of 12%. Under the Western Accord, this tax is to be phased out in stages, declining to zero at the end of 1988.

As well, the Western Accord provides that the PGRT will not apply to production from wells drilled on or after April 1, 1985.

Petroleum Incentives Program

The Government of Canada, through the Petroleum Incentives Program ("PIP"), and the Government of Alberta, in respect of lands in Alberta, through the Alberta Petroleum Incentives Program ("APIP"), have provided direct cash incentives to qualified applicants in respect of eligible drilling and related expenditures. PIP and APIP were structured to favour investment by Canadian-owned and controlled corporations, and investments in the Canada Lands. By September 30, 1985, Norcen had earned grants of $358.1 million. Norcen qualifies for the highest levels of grants, amounting to 80% of expenditures for Canada Lands exploration, 35% of exploration expenditures on provincial lands, and 20% of most development expenditures.

The Western Accord specifies that PIP will terminate on March 31, 1986. Certain frontier wells drilled to meet commitments under exploration agreements on Canada Lands will continue to qualify for incentives up to December 31, 1987.The Government of Alberta has announced that APIP will terminate on March 31, 1986, except for certain eligible activities which will be "grandfathered" to December 31, 1986.

Federal Incentives

On October 30, 1985, the Government of Canada announced a new program of incentives within the income tax regime. Exploration expenditures in excess of $5 million on an individual well will be eligible for an Exploration Tax Credit equal to 25% of qualified expenditures. The credit will be effective December 1, 1985, but will not apply to expenditures which attract payments under PIP. The credit will apply to expenditures made up to December 31, 1990.

On October 30, 1985, the Government of Canada also announced its intention to make major changes to the land tenure regime governing oil and gas exploration, development and production on Canada Lands. Included among these changes will be the abolishment of the 25% Crown Share provision.

Provincial Royalties and Incentives

During 1985 the Governments of Alberta, Saskatchewan and British Columbia announced programs designed to encourage exploration for new oil and gas reserves. These programs included such incentives as royalty holidays, reduced or varying royalties and pricing incentives and initiatives.

Other Information

Since February 25, 1985, the date of the Company's AIF, except as disclosed in this short form prospectus, there have been no developments that, in the view of Norcen, materially affect it.

APPLICATION OF PROCEEDS

The estimated net proceeds to be derived by the Company from the sale of the Second Preference Shares, Series A will amount to $97,000,000 after deducting estimated expenses of issue and the Underwriters' fee. These proceeds will be applied to reduce the Company's indebtedness under short and long term bank lines of credit which amounted to $581.9 million as at September 30, 1985.

DETAILS OF THE OFFERING

The following is a summary of the principal provisions attaching to the second preference shares as a class and to the Second Preference Shares, Series A offered hereby.

Description of the Second Preference Shares as a Class

Issuable in Series

The second preference shares may be issued from time to time in one or more series. Subject to certain limitations, the board of directors may fix the provisions attaching to the second preference shares of each series.

Priority

With respect to payment of dividends and repayment of capital on liquidation, the second preference shares, as a class, rank (a) junior to the first preference shares; (b) prior to the junior preference shares; and (c) prior to the ordinary shares.

Modification

Authorization to delete or vary any provision attaching to the second preference shares as a class or to create shares ranking in priority to or on a parity with the second preference shares requires the approval of at least two-thirds of the votes cast at a class meeting of the holders of the second preference shares.

Description of the Second Preference Shares, Series A

The Second Preference Shares, Series A will have, among others, provisions to the following effect attached thereto in addition to the provisions attached to the second preference shares as a class.

Dividends

The holders of the Second Preference Shares, Series A will be entitled to receive fixed, cumulative, cash dividends as and when declared by the board of directors, at the rate of $2.03 per share per annum payable by quarterly instalments of $0.5075 each on the first day of March, June, September and December. Dividends shall accrue from the date of issue and, assuming an issue date of February 11, 1986 and declaration by the directors, an initial dividend of $0.609 per share will be paid on June 1, 1986.

Retraction Privilege

A holder of Second Preference Shares, Series A shall have the privilege of requiring the Company to redeem all or any of the Second Preference Shares, Series A held by such holder on March 1, 1992 (the "Retraction Date") at a price equal to $ 25.00 per share plus accrued and unpaid dividends to but not including the Retraction Date. The Company shall, during the 30 day period ending December 15, 1991, give written notice to each holder of Second Preference Shares, Series A of such retraction privilege. Such retraction privilege must be exercised on or before January 15, 1992 by the presentation and surrender to the Company of the share certificates representing the Second Preference Shares, Series A required to be redeemed. Such presentation and surrender shall be irrevocable except with respect to those shares presented and surrendered which are not redeemed by the Company on the Retraction Date.

The Company will be obligated to redeem Second Preference Shares, Series A to the extent that the redemption would not be contrary to any applicable law. If the Company is unable for this reason to redeem all Second Preference Shares, Series A presented and surrendered on the Retraction Date, it will redeem pro rata on the Retraction Date and on each dividend payment date thereafter, such number of such Second Preference Shares, Series A as have not previously been redeemed or withdrawn by the shareholders as the Company determines it is then permitted to redeem, until all such shares have been so redeemed.

Voting Rights

The holders of the Second Preference Shares, Series A will not be entitled to receive notice of, attend or vote at meetings of shareholders of the Company; provided that the holders shall be entitled to one vote per share held if and for so long as the cumulative dividends on the Second Preference Shares, Series A are in arrears for a period exceeding eight quarters.

Redemption and Purchase

The Second Preference Shares, Series A will not be redeemable prior to March 1, 1992 but thereafter, will be redeemable at the option of the Company in whole at any time or in part from time to time on not less than thirty days' notice at the redemption prices per share shown below:

If redeemed before March 1, 1993	$26.00
If redeemed thereafter and before March 1, 1994	$25.75
If redeemed thereafter and before March 1, 1995	$25.50
If redeemed thereafter and before March 1, 1996	$25.25
If redeemed thereafter	$25.00

together, in each case, with all the accrued and unpaid dividends thereon to the date of redemption.

In the case of a partial redemption, the shares to be redeemed will be selected by lot or redeemed on a pro rata basis or selected in such other manner as the board of directors shall deem equitable.

The Company will be permitted at any time to purchase all or any part of the Second Preference Shares, Series A (a) through the facilities of a stock exchange on which the shares are listed or by invitations for tenders to all holders; or (b) otherwise at a price per share not exceeding $ 26.00 if such purchase is made prior to March 1, 1992 or the then current redemption price if made thereafter, plus in all cases accrued dividends and costs of purchase.

Purchase Obligation

The Company will in each calendar quarter, commencing with the quarter beginning April 1, 1992, make all reasonable efforts to purchase 1% of the total number of Second Preference Shares, Series A outstanding at the close of business on March 1, 1992, if and to the extent such shares are available for purchase at prices not exceeding $25.00 per share plus costs of purchase, and such obligation will carry over to the succeeding calendar quarters in the same calendar year. If, after all reasonable efforts, the Company is unable to purchase an aggregate of 4% of such shares in the four quarters of any calendar year, the Company's obligation to purchase shares with respect to such calendar year will be extinguished.

Conversion into Further Series

A holder of Second Preference Shares, Series A will have the option to convert such shares on a share for share basis into shares of a further series of second preference shares if the Company elects, on or before December 15, 1991 to create a further series of second preference shares into which the Second Preference Shares, Series A are convertible. If the Company elects to create a further series of second preference shares as aforesaid, the holders of the Second Preference Shares, Series A will be entitled to convert their shares during a conversion period ending no earlier than three months after the Retraction Date, subject to prior redemption.

Restrictions on Dividends, Issue and Retirement of Shares

So long as any of the Second Preference Shares, Series A are outstanding and unless all dividends then payable on the Second Preference Shares, Series A and on all other shares ranking prior to or on a parity with the Second Preference Shares, Series A have been declared and paid or set aside for payment, the Company will not, without the approval of the holders of the Second Preference Shares, Series A:

(a) pay any dividends on the junior preference shares, ordinary shares, or any other shares of the Company ranking junior to the Second Preference Shares, Series A (other than stock dividends in any such shares of the Company); or

(b) except out of the net proceeds of a substantially concurrent issue of shares ranking junior to the Second Preference Shares, Series A, redeem or purchase or make any capital distribution in respect of the junior preference shares, ordinary shares, or any other shares of the Company ranking junior to the Second Preference Shares, Series A; or

(c) except in connection with the exercise of the retraction privilege attaching thereto, redeem or purchase less than all the Second Preference Shares, Series A; or

(d) redeem or purchase any other shares of the Company ranking on a parity with the Second Preference Shares, Series A; or

(e) except in connection with the conversion of any Second Preference Shares, Series A into shares of one or more series of such class, issue any shares ranking prior to or on a parity with the Second Preference Shares, Series A.

Rights on Liquidation

In the event of the liquidation of the Company, the holders of the Second Preference Shares, Series A will be entitled to $25.00 per share plus all accrued and unpaid dividends and, if such liquidation is voluntary, a premium of $1.00 per share if such event commences prior to March 1, 1992, or, if such event commences thereafter, a premium equal to the premium payable on redemption if such shares were to be redeemed at the commencement of any such liquidation, before any amounts are paid to the holders of the junior preference shares, the ordinary shares, or any other class of shares ranking junior to the Second Preference Shares, Series A. The holders of Second Preference Shares, Series A will not be entitled to share in any further distribution of property of the Company.

Modification

The provisions attaching to the Second Preference Shares, Series A may be amended at any time with such approvals as may be required by the CBCA. The CBCA currently provides that such approval may be given by at least two-thirds of the votes cast at a meeting of the holders of the Second Preference Shares, Series A.

SHARE CAPITAL OF THE COMPANY

The authorized share capital of the Company consists of (a) 1,300,000 first preference shares, issuable in series, which may be issued for a price or consideration not exceeding in the aggregate the sum of $132,500,000; (b) an unlimited number of second preference shares (to be automatically redesignated as first preference shares upon such date as the above-mentioned class of 1,300,000 first preference shares is no longer authorized), issuable in series; (c) an unlimited number of junior preference shares, issuable in series; (d) an unlimited number of non-voting ordinary shares; and (e) an unlimited number of voting ordinary shares; of which the following were issued and outstanding on December 31, 1985; (i) 844 first preference shares, Series A and 55,013 first preference shares, Series B; (ii) 85,817 convertible junior preference shares, 1981 Series, 5,999,900 convertible junior preference shares, 1983 Series and 113,300 convertible junior preference shares, Series B; (iii) 21,580,260 non-voting ordinary shares; and (iv) 27,136,235 voting ordinary shares.

The following is a summary of certain attributes of the share capital of the Company.

First Preference Shares

Provisions attaching to the first preference shares include provisions entitling the holders thereof to:

(a) fixed, cumulative, cash dividends in priority to any dividends on the second preference shares, the junior preference shares, the non-voting ordinary shares and the voting ordinary shares;

(b) one vote for each share held at all meetings of shareholders of the Company other than meetings of another series or class; and

(c) a priority over the second preference shares, the junior preference shares, the non-voting ordinary shares and the voting ordinary shares in respect of repayment of capital on liquidation.

Second Preference Shares

The second preference shares rank after the first preference shares but prior to the junior preference shares, the non-voting ordinary shares and the voting ordinary shares, with respect to the payment of dividends and repayment of capital on liquidation. See "Details of the Offering".

Junior Preference Shares

The junior preference shares as a class rank after the first preference shares and second preference shares but prior to the non-voting ordinary shares and voting ordinary shares with respect to the payment of dividends and the repayment of capital on liquidation.

Convertible Junior Preference Shares, 1981 Series and Series B

The series provisions attaching to the convertible junior preference shares, 1981 Series and Series B include provisions entitling the holders thereof, subject to certain restrictions, to convert each convertible junior preference share, 1981 Series into approximately 1.66 non-voting ordinary shares and 1.66 voting ordinary shares, prior to August 11, 1989 and to convert each convertible junior preference share, Series B into approximately 3.19 non-voting ordinary shares, prior to December 13, 1991.

The convertible junior preference shares, 1981 Series and Series B do not carry the right to vote and are not entitled to dividends.

Convertible Junior Preference Shares, 1983 Series

The series provisions attaching to the convertible junior preference shares, 1983 Series include provisions entitling the holders thereof to:

(a) fixed, cumulative cash dividends in priority to any dividends on the non-voting ordinary shares and the voting ordinary shares; and

(b) subject to certain restrictions, the right to convert each convertible junior preference share, 1983 Series into approximately 1.28 non-voting ordinary shares, prior to December 1, 1990.

The convertible junior preference shares, 1983 Series do not carry the right to vote.

Non-Voting Ordinary Shares and Voting Ordinary Shares

The holders of the non-voting ordinary shares and voting ordinary shares of the Company are entitled to any dividends that may be declared by the board of directors subject to the preferential dividend rights attaching to the shares ranking in priority to the non-voting ordinary shares and voting ordinary shares and in the event of the dissolution of the Company will be entitled, subject to the rights on dissolution of the holders of the shares ranking in priority to the non-voting ordinary shares and voting ordinary shares, to receive on a pro rata basis all of the assets of the Company remaining after the payment of all of the liabilities.

Holders of non-voting ordinary shares and voting ordinary shares are entitled to receive notice of, attend and speak at any meeting of the shareholders of the Company, except for a class meeting of the holders of shares of another class or a series meeting of the holders of shares of a particular series. Holders of voting ordinary shares are entitled to one vote per share at all meetings of shareholders, except meetings of the holders of another class or series of shares. Except as required by the CBCA, holders of non-voting ordinary shares are not entitled to vote at any meeting of shareholders of the Company.

Voting ordinary shares are convertible at the holder's option into non-voting ordinary shares on a one-for-one basis at any time. Non-voting ordinary shares are convertible into voting ordinary shares on a one-for-one basis only in certain limited circumstances.

CHANGES TO SHARE AND LOAN CAPITAL

The only material changes in the share capital of the Company since December 31, 1984 have been the purchase by the Company of certain non-voting ordinary shares and voting ordinary shares. During 1985, the Company purchased by way of a normal course issuer bid on the open market at an average cost of $14.12 per share, excluding brokerage commissions, 1,835,600 of its non-voting ordinary shares. In addition, pursuant to substantial issuer bids made on the floor of The Toronto Stock Exchange on August 30, 1985, the Company purchased at a price of $15.75 per share, excluding brokerage commissions, 940,533 of its voting ordinary shares and 5,038,320 of its non-voting ordinary shares.

The only material changes in the loan capital of the Company relate to the substantial issuer bids and the contribution to the partnership with Gulf referred to under "Recent Developments" which transactions were financed from two lines of credit with three Canadian chartered banks. One line of credit for $90 million matures on August 31, 1988; the second line of credit for $300 million revolves to August 31, 1987 when the Company has the option to convert to a six-year term with equal semi-annual principal repayments.

CONSOLIDATED CAPITALIZATION

	December 31, 1984	September 30, 1985	September 30, 1985 after giving effect to this issue
		(thousands of dollars)	
LONG-TERM DEBT (1):			
The Company			
11¼% secured debentures, 1996(2)	$ 26,090	$ 24,822	$ 24,822
10¼-11¼% secured notes, 1988(2)	25,244	19,475	19,475
12½-13¼% debentures, 1990-2003	115,000	136,780	136,780
Term bank credits, 1988-1994(3)	121,440	516,040	419,040
7.6% subordinated note, 1999	47,300	47,300	47,300
Other		166	166
Monarch Propane Limited			
Term bank loans, 1990		3,586	3,586
LONG-TERM DEBT	335,074	748,169	651,169
MINORITY INTERESTS IN SUBSIDIARIES:	13,246	14,485	14,485
CAPITAL STOCK (4):			
First preference shares			
844 $1.06, series A (860 in 1984)	22	21	21
55,928 $1.50, series B (61,724 in 1984)	1,543	1,398	1,398
Second preference shares			
4,000,000 8.12%, series A (this issue)			100,000
Junior preference shares, convertible redeemable			
85,817 1981 series (85,817 in 1984)	4,291	4,291	4,291
5,999,900 7¾%, 1983 series (5,999,900 in 1984)	147,178	147,178	147,178
113,300 series B (113,300 in 1984)	5,665	5,665	5,665
Ordinary shares			
27,133,567 voting (28,063,575 in 1984)	136,841	132,428	132,428
21,540,189 non-voting (28,274,898 in 1984)	140,152	107,799	107,799
RETAINED EARNINGS:	351,540	322,209	322,209
SHAREHOLDERS' EQUITY	787,232	720,989	820,989
TOTAL CAPITALIZATION	$1,135,552	$1,483,643	$1,486,643

NOTES:

(1) Long-term debt outstanding that was issued in United States funds, which amounted to U.S. $106,437,500 and U.S. $115,748,125 as at December 31, 1984 and September 30, 1985, respectively, has been included above at its Canadian dollar equivalents at those dates. Long-term debt excludes current maturities of $8,594,000 and $9,006,000 as at December 31, 1984 and September 30, 1985, respectively.

(2) Certain producing oil and gas properties of Norcen are subject to first mortgage liens under trust deeds securing the outstanding secured debentures and secured notes.

(3) Lines of term bank credits, established with three Canadian banks, amounting to $121,440,000 as at December 31, 1984 ($126,040,000 as at September 30, 1985) have been amended to provide on maturity in 1986 semi-annual principal repayments to retire the loans in 1994. Additional lines of term bank credits established on August 30, 1985 with the three Canadian banks amounting to $300,000,000 and $90,000,000 mature August 31, 1987 (and may be extended at the borrower's option into a term loan with semi-annual principal repayments to retire the loan in 1993) and August 31, 1988, respectively.

(4) Refer to pages 9 and 10 for a description of the authorized, issued and outstanding capital stock, and the convertible features of the junior preference shares.

DIVIDEND AND INTEREST COVERAGE

After giving effect to this issue, the annual dividend requirements on all preference shares of the Company outstanding as at September 30, 1985 will amount to $19.8 million per annum. The consolidated net income of the Company and its subsidiaries for the twelve months ended September 30, 1985 has been adjusted (the "Adjusted Consolidated Net Income") to give effect from the commencement of such twelve month period to (i) a reduction of interest expense under short and long term lines of credit due to the use of proceeds of this issue; (ii) the financial effect of the investment in the partnership with Gulf referred to under "Recent Developments"; (iii) the increased interest expense related to the substantial issuer bids referred to under "Changes to Share and Loan Capital"; and (iv) the reduced interest expense related to the sale of the gas utilities division. On such basis, the Adjusted Consolidated Net Income amounted to $118.5 million being approximately 6.0 times such annual dividend requirements.

After giving effect to this issue, the annual dividend requirements on all preference shares of the Company (grossed-up to a pre-tax equivalent) together with the annual interest requirements on the long-term debt as at September 30, 1985 will amount to $106.0 million per annum. The Adjusted Consolidated Net Income before deduction of interest on long-term debt and income taxes amounted to $323.3 million, being approximately 3.1 times such annual interest and dividend requirements.

ASSET COVERAGE

After giving effect to this issue, the adjusted net tangible assets of the Company and its subsidiaries as at September 30, 1985 were as follows:

	(millions of dollars)
Properties, plant and equipment, at cost	$1,736
Less: Accumulated depreciation and depletion	514
Net properties, plant and equipment	1,222
Current assets	164
Investments and other assets	690
Less: Current liabilities	(265)
Long-term debt	(748)
Net tangible assets	1,063
Add: Estimated net proceeds of Second Preference Shares, Series A	97
Adjusted net tangible assets before deducting the following	1,160
Less: Deferred income taxes	(287)
Deferred gas revenues	(52)
Minority interest	(14)
Adjusted net tangible assets	$ 807

The adjusted net tangible assets will be $1,160 million before deducting deferred income taxes, deferred gas revenues and minority interests and $807 million after such deductions, being equivalent to 4.5 times and 3.1 times respectively the aggregate issue price of all preference shares of the Company to be outstanding after giving effect to this issue.

Before deducting consolidated long-term debt, adjusted for the net proceeds of this issue, the adjusted net tangible assets will be $1,811 million before deducting deferred income taxes, deferred gas revenues and minority interests and $1,458 million after such deductions, being equivalent to 2.0 times and 1.6 times respectively the sum of the principal amount of consolidated long-term debt and the aggregate issue price of all preference shares of the Company to be outstanding after giving effect to this issue.

INCOME TAX CONSIDERATIONS

In the opinion of Osler, Hoskin & Harcourt and of Borden & Elliot, the following summary fairly describes the principal Canadian federal income tax consequences arising under the Income Tax Act (Canada) (the "Act") to a person resident in Canada who holds Second Preference Shares, Series A as capital property and who deals at arm's length with the Company. The summary is based upon the current provisions of the Act and the regulations

thereunder, Bill C-84, an Act to amend the Income Tax Act (the "Bill"), which received second reading in the House of Commons on December 17, 1985, the Notice of Ways and Means Motion to amend the Act tabled in the House of Commons on December 4, 1985 (the "Motion"), and the published interpretations and practices of Revenue Canada. If the proposed amendments to the Act are not enacted or are enacted in modified form, the income tax consequences may not be as described below in all cases. This summary does not take into account foreign or provincial tax legislation or considerations which may vary from the federal legislation or considerations. For example, the Government of Ontario recently indicated its intention to negotiate an amendment to Ontario's tax collection agreement with the Government of Canada so that the proposed capital gains exemption discussed below would not generally apply for Ontario purposes.

This summary is not intended to constitute legal or tax advice to any particular prospective purchaser. Therefore, prospective purchasers are advised to consult their own tax advisers as to their particular income tax situation.

Taxation of Dividends

Dividends received on the Second Preference Shares, Series A will be included in computing the shareholder's income. If the shareholder is an individual, the gross-up and dividend tax credit provisions applicable to dividends received by individuals from taxable Canadian corporations will apply in respect of all dividends received. The grossed-up amount of such dividends will be included in computing the individual's entitlement to the annual deduction of up to $1,000 for qualifying Canadian source interest and dividends.

The Motion proposes that for 1986 and subsequent taxation years, an individual will generally be required to pay a tax of not less than a minimum amount computed by reference to his adjusted taxable income for the year. This minimum tax is to be computed without reference to the dividend tax credit and, as a result, the grossed-up amount of dividends may be subject to a minimum federal tax.

A shareholder which is a corporation (other than a "specified financial institution" within the meaning of the Act) will generally be entitled to deduct dividends received on the Second Preference Shares, Series A in computing its taxable income. A specified financial institution will also be entitled to deduct dividends on the Second Preference Shares, Series A if either (i) the specified financial institution did not acquire the Second Preference Shares, Series A in the ordinary course of the business carried on by it, or (ii) at the time the dividends are received, the Second Preference Shares, Series A are listed on a prescribed stock exchange in Canada and the specified financial institution alone or together with persons with whom it does not deal at arm's length receives dividends in respect of not more than 10% of the Second Preference Shares, Series A outstanding at the time the dividends are paid.

A shareholder which is a private corporation (as defined in the Act) or any other corporation controlled directly or indirectly by or for the benefit of an individual or a related group of individuals may be liable to pay a 25% refundable tax under Part IV of the Act on dividends received on the Second Preference Shares, Series A to the extent that such dividends are deductible in computing the taxable income of the corporation.

Disposition

A shareholder disposing of a Second Preference Share, Series A, either by way of a sale to a third party or to the Company in a normal open market transaction, will realize a capital gain or a capital loss to the extent that the proceeds of disposition of the Second Preference Share, Series A exceed, or are exceeded by, the aggregate of the adjusted cost base of the Second Preference Share, Series A and any costs of disposition. One-half of any such capital gain will be included in computing the shareholder's income.

In the case of a shareholder who is an individual, other than a trust, any such capital gain may be eligible, within certain limits and subject to certain restrictions, for the capital gains deduction in computing taxable income as described in the Bill. As a result of the Motion, capital gains realized by an individual, whether or not eligible for the capital gains deduction, may be subject to a minimum federal tax.

If the shareholder is a corporation or a partnership or trust of which a corporation is a member or beneficiary, a capital loss realized on the disposition of a Second Preference Share, Series A may, in certain circumstances, be reduced by the amount of any dividends which have been received or deemed to have been received in respect of such Second Preference Share, Series A.

An amount paid by the Company for the redemption or acquisition by it, other than on a normal purchase in the open market, of Second Preference Shares, Series A in excess of the paid-up capital of $25.00 per share will be

treated as a dividend. The amount of any such dividend will not be included in computing the proceeds of disposition to the shareholder for purposes of computing the capital gain or capital loss on the disposition of the Second Preference Shares, Series A. The amount of such dividend will not be eligible for the annual $1,000 deduction available to individuals as described above. In the case of a corporate shareholder, it is possible that in certain circumstances the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend.

PLAN OF DISTRIBUTION

Pursuant to an agreement dated January 21, 1986 (the "Underwriting Agreement") between the Company and Wood Gundy Inc. and Dominion Securities Pitfield Limited, as underwriters, the Company has agreed to sell and the underwriters have agreed to purchase, subject to compliance with all necessary legal requirements and to the terms and conditions contained therein, on February 11, 1986, or on such other date as may be agreed upon but not later than March 11, 1986, 4,000,000 Second Preference Shares, Series A at a price of $25.00 per share, payable to the Company against delivery of certificates representing the Second Preference Shares, Series A. The underwriters' fee for the Second Preference Shares, Series A is $0.25 for each share sold to certain institutions and $0.75 per share for all other shares, to a maximum fee of $2,800,000. The obligations of the underwriters under the Underwriting Agreement are separate and not joint and may be terminated upon the occurrence of certain stated events.

In connection with this offering the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Second Preference Shares, Series A at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Thorne Riddell, 205, 5th Avenue S.W., Calgary, Alberta T2P 3B9.

The transfer agent and registrar for the Second Preference Shares, Series A is National Trust Company at its principal offices in Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces provides purchasers with the right to withdraw from an agreement to purchase these securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser but such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of his province. Purchasers in the Province of Saskatchewan, as a term of this offering, are given the same rights of rescission and withdrawal as if it had been necessary to have had a prospectus and any amendments accepted by the Saskatchewan Securities Commission. The purchaser should refer to any applicable provisions of the securities legislation of his province for the particulars of these rights or consult with a legal adviser.

CERTIFICATE OF THE COMPANY

Dated: January 29, 1986

The foregoing, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities laws of all provinces of Canada and does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed as required by the Securities Act (Quebec) and the regulation thereunder.

(Signed) E. G. Battle
President and Chief
Executive Officer

(Signed) A. S. G. Duguid
Treasurer

On behalf of the Board of Directors

(Signed) D. D. Barkwell
Director

(Signed) F. A. M. Huycke
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: January 29, 1986

To the best of our knowledge, information and belief the foregoing, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities laws of all provinces of Canada and to our knowledge does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed as required by the Securities Act (Quebec) and the regulation thereunder.

WOOD GUNDY INC.

(Signed) R. E. Venn

DOMINION SECURITIES PITFIELD LIMITED

(Signed) R. E. Lint

The following includes the names of all persons or companies having an interest either directly or indirectly to the extent of not less than five percent in the capital of:

WOOD GUNDY INC: The Wood Gundy Corporation; and

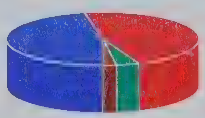
DOMINION SECURITIES PITFIELD LIMITED: None.

Printed in Canada by
Norgraphics (Canada) Limited

(Millions of Canadian dollars except per share items)	1991	1990	% change
FINANCIAL			
SALES AND OTHER REVENUES	$ 982.4	$1,047.4	−6%
CASH GENERATED FROM OPERATIONS	$ 279.2	$ 356.1	−22%
NET EARNINGS	$ 44.1	$ 129.2	−66%
CAPITAL EXPENDITURES (including acquisitions)	$ 283.1	$ 471.2	−40%
PER ORDINARY SHARE			
Earnings — basic	$ 0.49	$ 1.90	−74%
— fully diluted	$ 0.49	$ 1.56	−69%
Cash flow — basic	$ 4.41	$ 5.72	−23%
— fully diluted	$ 3.23	$ 4.14	−22%
Dividends paid	$ 0.60	$ 0.55	+9%
Market price — year-end			
Multiple voting	$ 23.50	$ 25.25	−7%
Subordinate voting	$ 22.25	$ 22.88	−3%
OPERATING			
PRODUCTION			
Oil and gas liquids *(thousands of barrels per day)*	54.5	56.8	−4%
Natural gas *(millions of cubic feet per day)*	251.2	247.5	+1%
AVERAGE PRICES RECEIVED			
Oil and gas liquids *(per barrel)*	$ 18.85	$ 23.65	−20%
Natural gas *(per thousand cubic feet)*	$ 1.57	$ 1.74	−10%
RESERVES			
Oil and gas liquids *(millions of barrels)*	193.8	171.6	+13%
Natural gas *(billions of cubic feet)*	1,785	1,701	+5%
SALES OF PROPANE *(millions of litres)*	1,534.9	1,353.8	+13%

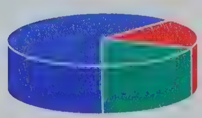
SALES AND OTHER REVENUES

- Oil and gas 47%
- Propane marketing 47%
- Minerals 4%
- Investment and other 2%



OPERATING INCOME

- Oil and gas 63%
- Propane marketing 18%
- Minerals 19%



For Norcen, 1991 was a year of considerable operating success. Drilling activity in Western Canada and the U.S. Gulf Coast region, together with property acquisitions, added significant volumes of both oil and gas to the Company's reserves and production base. In the international arena, Norcen participated in two promising oil discoveries offshore from Malaysia, which have considerable potential for commercial development. Unfortunately these and other significant accomplishments were overshadowed by the effects of the recession and warm winter weather patterns across North America, which combined to depress energy prices and weaken financial performance.

"TWO OIL DISCOVERIES OFFSHORE MALAYSIA HAVE CONSIDERABLE DEVELOPMENT POTENTIAL."

Norcen's Response to the Poor Business Conditions

Responding early in the year to the steady deterioration in the business environment, Norcen took a number of steps to protect the integrity of its operations, as well as to sharpen its competitive edge. Capital spending plans were cut back to levels more in line with reduced cash flow expectations. The focus of capital spending shifted strongly towards oil prospects. Projects were prioritized to ensure that available funds were allocated primarily to low risk development opportunities with early cash flow potential. Additional cost-cutting programs and measures to improve efficiency were introduced. The most significant of these initiatives was a 10 per cent reduction in staff levels in the Oil and Gas Division, which was accomplished through a combination of enhanced early retirements and involuntary terminations. Other measures continue to be introduced to improve the Company's operating performance.

Financial Results

While Norcen fared better than many of its peers, due to its strong oil-based operations and healthy revenue streams from mineral resources and other corporate investments, both earnings and cash flow fell sharply from the record levels achieved a year earlier.

Net earnings for 1991 amounted to $44.1 million compared to $129.2 million in 1990. Cash flow from operations at $279.2 million, was down from $356.1 million. Major factors contributing to the decline in Norcen's financial performance included a 20 per cent drop in the Company's average price for its crude oil and natural gas liquids production, and a 10 per cent drop in the average price for natural gas. Another significant factor was a sharp increase in the cost of doing business. Production, operations and administration expenses rose 13 per cent. These higher costs were cushioned to some extent by lower income taxes.

The crude oil price decline in 1991 reflected the high oil prices received in the last half of 1990, following the Iraqi invasion of Kuwait. Those high prices eroded rapidly in mid-January 1991 in concert with the military offensive against Iraq. Looking ahead, the surplus crude oil supply capability overhanging world markets does not bode well for prices over the short term. Other uncertainties which are expected to influence the price of oil are the level of crude oil exports from countries which comprised the former Soviet Union, and the pace of economic recovery in major industrialized countries.

The serious deterioration in natural gas prices in 1991 reflected the continuing surplus of gas deliverability that exists in North America. This excess supply situation was further exacerbated over the past year by weakness on the demand side, resulting from a combination of the recession and warm winter weather conditions. Until supply and demand volumes move closer into balance, little improvement can be anticipated from currently depressed price levels.

Operating Achievements

Exploration and development progams, supplemented by property acquisitions, enabled the Company to more than replace reserves produced during the year. Noteworthy areas of drilling success, providing immediate additions to the Company's crude oil production base, included Enchant and Golden in Alberta and Burns in Mississippi.

In the Gulf of Mexico, development programs on Eugene Island Block 142 and West Cameron Block 69 were also completed and placed on production. Close to year-end, a discovery was made on Eugene Island Block 162 in the Gulf of Mexico. Testing of both the discovery well and a follow-up appraisal well is scheduled for February, 1992.

In total, exploration and development successes in North America added 10,000 barrels per day of crude oil and natural gas liquids and 63.5 million cubic feet per day of gas to the Company's productive potential.

Norcen's efficient exploitation of its extensive and diverse asset base in Western Canada is a major corporate strength, providing profitable investment opportunities with minimal risk. In 1991, through a variety of small strategic acquisitons and property swaps the Company further enhanced this valuable resource. In total, $28.9 million was spent on acquisitions, net of dispositions in Western Canada, adding 1,800 barrels per day of oil and gas liquids and seven million cubic feet per day of gas to Norcen's production base. The acquired properties also provided the potential for new prospects to be added to Norcen's inventory of investment opportunities.

"THE COMPANY MORE THAN REPLACED RESERVES PRODUCED DURING THE YEAR."

In November, 1991, Norcen signed a letter of intent to acquire the U.S. oil and gas assets of PanCanadian Petroleum Company. Completion of this acquisition, anticipated in early 1992, would add 1,900 barrels per day of oil and gas liquids and 8.5 million cubic feet per day of gas to Norcen's U.S. production base.

The highlight of the international exploration program was three successful wells on block PM-3 offshore from the Malaysia Peninsula. Two of these wells are being evaluated for development potential. In Australia's Timor Sea, development of the Skua oil field was completed on schedule, with first production on stream in December, 1991.

Reserves Replacement

The success of Norcen's drilling activity in 1991 is not fully reflected in year-end reserves because no recognition is given to discoveries, such as those offshore Malaysia and on Eugene Island Block 162 in the Gulf of Mexico, which have yet to be evaluated for development purposes. Nevertheless, exploration and development success, supplemented by property acquisition, added 41.7 million barrels of oil and natural gas liquids and 177 billion cubic feet of gas to Norcen's established reserves in 1991. In terms of reserves replacement, these additions replaced 214 per cent of oil and gas liquids production and 190 per cent of natural gas production.

Outlook and Strategies

Early in 1992, as energy prices continued to weaken, the Company revised its 1992 spending plans downward from an initially budgeted level of $259 million. The revised level of $208 million anticipates $185 million allocated to oil and gas programs and $23 million to propane marketing requirements. Of the planned outlays on oil and gas, $78 million will be directed towards exploration activity, $105 million to development programs and $2 million to other needs. In North America, the prime focus of both exploration and development activity will be on oil and natural gas liquids prospects in the Western Sedimentary Basin

and in the U.S. Gulf Coast region. Internationally, the Company will be directing its emphasis to activity in the new core areas, including Malaysia, Indonesia and Argentina. Exploration in Australia will be reduced due to the lack of drilling success in recent years.

"CONCENTRATION ON PROJECTS YIELDING EARLY REVENUES AND PAYOUT."

While Norcen's financial strategy requires that its capital budget be funded from operating cash flows, the Company's considerable balance sheet strength will permit it to take advantage of other attractive investment opportunities when they occur.

In 1992, Norcen anticipates a highly competitive business environment for both oil and gas and propane marketing operations. As Norcen has little control over the competitive pricing of its production, it will concentrate on increasing production volumes, improving the quality mix of oil and gas, and improving its operating cost structure.

Norcen's record of containing general and administrative costs has been second to none among its peer group. Norcen also has had a history of strong production and reserves growth. In spite of these successes, however, the intensely competitive energy environment will not allow for any complacency. To improve performance in all areas, Norcen's 1992 investment and operating strategy will place emphasis on the following priorities:

- Full and aggressive exploitation of Norcen's leading technical position in land, exploration and production technology, wherever applicable;
- Emphasis on improving the effectiveness of capital spending, particularly as it relates to the management of controllable risk;
- Continued control of drilling and construction costs;
- Concentration on projects which can yield early revenues and payout;
- Upgrading the quality and volume of the Company's asset base.

Early in 1992, there are a few positive signs of improvement in the business environment—lower inflation, lower interest costs, and a lower Canadian dollar. In spite of these, Norcen expects the business environment to remain intensely competitive and will continue to direct its spending priorities towards maintaining and improving its position as a low-cost efficient producer.

As the Company competes in a low-price, low-growth environment, it is depending on its employees for their continued dedication in support of these goals. Norcen recognizes and appreciates the contributions made by its people to its past achievements and, with their continued commitment, looks forward to further success in the future.

On behalf of the Board,

B. D. Cochrane
President and Chief Executive Officer
February 19, 1992


R15
R14W5M
INFILL DRILLING
T67
T66
GOLDEN
DEEP GAS EXPLORATION
Kaybob
Fir
Seaforth
Oldman
DEEP DEVONIAN
ALBERTA
Hayter
Cadogan
Bodo
EDMONTON
CALGARY
ENCHANT-HAYS

◀ Western Canada

Golden
Infill drilling, aided by 3-D seismic, added close to 1,800 barrels per day to Norcen's crude oil production rates over the 1990/91 drilling season.

Deep Devonian
The major benefits from drilling successes in the Deep Devonian are expected to be realized over the medium to long term when gas prices improve.

Enchant
Successful development of a new pool discovery in the Sawtooth formation at Enchant was a prized addition to a program which has proved up in excess of two million barrels of oil in the Nisku formation in each of the past five years.

Horizontal Drilling
Horizontal drilling successes resulted in improved production rates and lower operating costs at a number of heavy oil producing locations.

United States ▶

Burns
Drilling at Burns added in excess of one million barrels of crude oil to Norcen's reserves. Burns is typical of the salt basin prospects the company is pursuing in Mississippi.

Crab Lake
Development of the Crab Lake gas discovery was completed and on stream early in April 1991 at 7.8 million cubic feet of gas per day.

Eugene Island
The highlight of U.S. activity in 1991 was the discovery of hydrocarbons on Eugene Island Block 162, shortly after bringing production on stream in mid-year from the oil and gas discovery on Block 142.

◀ South America

Exploration activity in Argentina in 1991 focused primarily on evaluation of the extensive land position assembled over the preceding two years.

Faro Virgenes
Early in 1992, Norcen completed the acquisition of producing acreage at Faro Virgenes. With production potential of 10 million cubic feet per day of gas, Faro Virgenes ranks as one of Norcen's major gas producing properties, worldwide

Southeast Asia ▶

PM-3
The high prospectivity of the PM-3 block was confirmed with the discovery of hydrocarbons in each of the three wells drilled. Results from two of these wells indicated considerable potential for commercial development.

Brantas
Extensive seismic gathering and processing on the Brantas block is currently ongoing. Prospect targets on the block rank as high as 250 million barrels of oil recoverable. An exploration well is planned for one of the major structures in 1992.


Bunga Pakma
Bunga Orkid
Bunga Raya
NEW POOL DISCOVERIES
PM-3
MALAYSIA
SINGAPORE
RAHAYAN
INDONESIA
JAKARTA
BRANTAS

OIL AND GAS

Norcen's prime operating objective is to secure strong and orderly growth in reserves and production. Major strategies include maximizing the value of the Company's extensive and diverse asset base in Western Canada and expanding the Company's production base in the United States. Complementing these North American initiatives, Norcen aims to maintain a high level of crude oil production in the international arena, ideally accounting for at least 20 per cent of the Company's total crude oil volumes. Over the short term, this goal is expected to be achieved through selective acquisitions. Over the medium term, the Company will be looking for success from wide-ranging exploration and development activity. Although generally accompanied by a higher level of risk, Norcen's international program provides the potential for larger discoveries than can be anticipated from traditional producing areas in North America.

At 1991 year-end, Norcen's land holdings outside of North America extended to nine countries and comprised an average 30 per cent interest in 31.7 million gross acres.

In 1991, operating income in the Oil and Gas Division amounted to $99.2 million, compared to $214.5 million in 1990. The main cause for the decline was lower oil and gas prices. Oil and gas liquids production at 54,533 barrels per day, was down four per cent, while gas volumes, at 251.2 million cubic feet per day, were up marginally.

Capital expenditures on oil and gas activity amounted to $231.8 million, slightly below the record spending of $236.2 million in 1990. Norcen's operating strategy continued to direct the highest spending priority towards development opportunities in the Western Canadian Sedimentary Basin and the U.S. Gulf Coast region.

Oil and Gas Land Holdings

(Thousands of acres)	Developed		Undeveloped			
	Petroleum and natural gas leases		Petroleum and natural gas leases		Permits and licences	
	Gross acres	Net acres	Gross acres	Net acres	Gross acres	Net acres
Canada						
Alberta	2,664	1,143	1,578	828	179	138
British Columbia	198	44	193	76	47	41
Saskatchewan and Manitoba	186	94	307	144		
Arctic			269	8	2,398	279
Beaufort Sea			142	22	3	
Yukon			13	10	1,620	648
East Coast			176	15	1,196	894
	3,048	1,281	2,678	1,103	5,443	2,000
International						
United States	47	19	379	212		
Australia	431	48			5,032	1,486
New Zealand			86	17	384	91
Papua New Guinea					2,604	391
Malaysia					1,451	290
Argentina	1				9,309	3,850
Chile					741	222
Algeria					3,327	1,497
Indonesia					8,283	1,657
Egypt					33	7
	479	67	465	229	31,164	9,491
Total	3,527	1,348	3,143	1,332	36,607	11,491

The figures in the above table do not include overriding royalty interests held in 904,000 gross acres and net carried interests in approximately 80,000 gross (5,000 net) acres.

Western Canada

Capital expenditures in Western Canada in 1991 amounted to $121.4 million with $61.1 million incurred on exploration activity and $60.3 million on development projects.

Early in the year Deep Devonian gas prospects in west-central Alberta were a major component of the drilling program but this focus was sharply curtailed as gas prices deteriorated. Drilling on the play resulted in one oil and five gas discoveries of which two were cased for secondary zone potential. Numerous undrilled Deep Devonian opportunities remained in Norcen's prospect inventory at year-end.

In oil exploration, Norcen continued to achieve success at Enchant in southern Alberta. For the fifth year in a row, exploration drilling in this area added in excess of two million barrels of oil to the Company's reserves. In prior years, most of Norcen's success came from discoveries in the Nisku formation but this mature exploration play is now being supplemented by discoveries in the Sawtooth formation. Development drilling on a Sawtooth pool discovered late in 1990 added 2.2 million barrels of oil to reserves in 1991. Exploration and development programs are ongoing in this area.

Due to Norcen's extensive land position in Western Canada, development projects are widespread and numerous. Of the more important programs undertaken in 1991, a successful five-well drilling program at Golden in north-central Alberta was particularly noteworthy. These five wells represented the continuation of an infill drilling program on existing producing acreage which began with four successful wells late in 1990. Norcen's share of incremental production resulting from 1991 drilling activity amounted to 940 barrels of oil per day. The use of 3-D seismic imaging to optimize drilling locations was a key factor in the success of the Golden project.

Another area in which improved technology is contributing to development success is in the various applications of horizontal drilling. The following table, summarizing the more important horizontal drilling activity undertaken by Norcen in 1991, provides an indication of the benefits which can be achieved from this improving technology:

Significant Horizontal Drilling Activity

	Working Interest (%)	Production Gains (b/d)	Drilling Justification
Hayter (3 wells)	37.5	215	Water coning
Brazeau River (1 well)	17.5	210	Gas coning
Tatagwa (1 well)	100.0	150	Vertical fractures
Bodo (1 well)	78.1	150	High sand cuts
Cadogan (1 well)	50.0	50	Underlying water zone

Supplementing the Company's ongoing exploration and development efforts, Norcen's engineers continued to rationalize and enhance the Company's asset base through acquisition and disposition of properties. At the present time, there is an abundance of oil and gas assets available for purchase in Western Canada but few buyers with the financial capacity to capitalize on these opportunities. In 1991, Norcen spent $28.9 million on acquisitions, net of dispositions. This compares with $31.6 million in 1990. The net outlays in 1991 resulted in the addition of 6.6 million barrels of oil and gas liquids and 16 billion cubic feet of gas to Norcen's reserves, and 1,800 barrels per day of oil and gas liquids and seven million cubic feet per day of gas to the Company's productive capacity. Also of importance, the acquired properties provided numerous exploration and development opportunities, thereby adding to the Company's prospect inventory.

Canadian Frontier

Offshore Canada's East Coast, Norcen has interests in several discoveries including Whiterose, Ben Nevis, Terra Nova and Hebron, all located within 50 miles of the giant Hibernia oil field, which is currently under

development by others. While Norcen has no immediate plans for development of Whiterose, Ben Nevis or Terra Nova, consideration is being given to the possibility of further delineation drilling and subsequent development of the Hebron discovery. If this should proceed in 1992, initial field production, at an estimated 50,000 barrels per day, could be anticipated as early as 1996. Norcen has an approximate 20 per cent interest in the reserves associated with the proposed development.

Offshore from the west coast of Newfoundland, Norcen has acquired a 50 per cent interest in two work permits and a 100 per cent interest in another permit. In 1991, exploration activity focused on obtaining seismic data. Additional seismic gathering is planned for 1992.

1991 Productive Potential Increases — Canada

	Norcen Share (%)	Productive Potential[1]	Comments and Future Activity
Conventional Oil and NGL			
Golden	to 100.0	940 b/d	Additional drilling in 1992.
Enchant (Sawtooth)	to 100.0	910 b/d	Additional drilling in 1992.
Enchant (Nisku)	to 100.0	605 b/d	Additional drilling in 1992.
Windfall West	100.0	470 b/d	
Seal	100.0	375 b/d	Additional drilling in 1992.
Others	to 100.0	5,440 b/d	Additional drilling in 1992.
Total		8,740 b/d	
Heavy Oil			
Hayter *(horizontal wells)*	37.5	215 b/d	Additional drilling in 1992.
Lindbergh	100.0	185 b/d	Infill drilling.
Bodo *(horizontal wells)*	78.1	150 b/d	Additional drilling in 1992.
Others	to 56.3	100 b/d	
Total		650 b/d	
Natural Gas			
Chinchaga	to 56.1	9.3 mmcf/d	
Pouce Coupe	100.0	7.0 mmcf/d	
Kaybob South	to 100.0	5.2 mmcf/d	
Fir	39.1	5.0 mmcf/d	
Normandville	40.0	4.9 mmcf/d	
Others		32.1 mmcf/d	
Total		63.5 mmcf/d	

[1] Norcen's share of estimated incremental productive potential, before royalties, arising from 1991 activity. Productive potential reflects capacity to produce, adjusted in some cases for production regulations and actual or estimated contract sales. Actual production from these properties may vary, depending on market conditions, pipeline constraints and other factors.

UNITED STATES

In 1991, Norcen continued to focus its U.S. operations on the Gulf Coast region and, through exploration and development success, achieved further progress towards establishing a significant production base in the area.

Operating highlights included development of the 1990 oil and gas discovery on Eugene Island Block 142, offshore from Louisiana. First production from the project came on stream early in July and flow rates over the remainder of the year averaged approximately 3,400 barrels of oil and 11.0 million cubic feet of gas per day. Norcen holds a 60 per cent interest in production from Eugene Island 142. Continuing exploration in this region has resulted in another discovery, this time on Eugene Island Block 162. The discovery well, drilled during the fall of 1991, was immediately followed by a second well, directionally drilled from the same rig location. The second well reached target depth early in February, 1992. Electric log analysis has indicated continuity of a number of hydrocarbon bearing zones in the two wells. An extended testing program of these formations is expected to be completed by the end of the first quarter of 1992.

Also offshore Louisiana, development of the 1990 gas discovery on West Cameron Block 69 was completed with initial production on stream early in August. Stabilized flow rates averaged 3.0 million cubic feet per day of gas and 125 barrels per day of condensate. Norcen has a 40 per cent interest in West Cameron Block 69.

Onshore activity continued to focus primarily on interior salt basin prospects in Mississippi. The principal success in 1991 was at Burns where two successful development wells added approximately 600 barrels of oil per day to Norcen's productive capacity. A third well was drilling at year end and plans include additional drilling on this prospect.

In Louisiana, development of the 1990 Crab Lake gas discovery was completed and on stream early in April, 1991.

Through property acquisition, farmin arrangements and participation in federal offshore lease sales, the Company continued to add to its U.S. land position in 1991. In the Gulf of Mexico, Norcen's year-end holdings averaged 62 per cent in 44 blocks comprising 206,000 gross (123,000 net) acres.

Late in 1991, Norcen signed a letter of intent to purchase the U.S. oil and gas assets of PanCanadian Petroleum Company for U.S. $39.0 million. Progress towards completion of the purchase was ongoing early in the first quarter of 1992. The acquisition is expected to add four million barrels of oil and gas liquids and 36 billion cubic feet of gas to Norcen's U.S. reserves. Current production rates from these properties are approximately 1,900 barrels per day of oil and gas liquids and 8.5 million cubic feet per day of natural gas.

The Company's 1992 exploration program anticipates additional drilling on oil prospects in Mississippi and participation in up to three wildcat wells offshore in the Gulf of Mexico. Development projects include follow-up drilling at Burns and Laurel.

SOUTH PACIFIC

AUSTRALIA

The only event of significance for Norcen in Australia in 1991 was the successful development of the Skua oil field in the Timor Sea. The program included the drilling of three production wells and installation of a floating production facility. Initial production came on stream at the rate of 15,000 barrels per day in December. Norcen has a five per cent interest in Skua.

At year-end 1991, the Company's exploratory land position in Australia comprised interests ranging from five per cent to 38 per cent in five permits, covering 3.3 million gross (0.6 million net) acres in the Timor Sea, interests in two permits covering 0.5 million gross (0.3 million net) acres in the Dampier Basin and a 40 per cent interest in a 1.3 million gross acre permit in the Perth Basin. The Dampier and Perth Basins are both located offshore from Australia's west coast.

Exploration activity in Australia again focused primarily on prospects in the Timor Sea, but none of

the six wells drilled in this region encountered commercial hydrocarbons. In view of the continued lack of success in Australia in recent years, the Company has phased down its exploration effort and plans to limit future drilling to commitment wells. The 1991 program includes three wells in the Timor Sea, all of which are located close to the Company's existing production facilities at Jabiru and Challis.

New Zealand

Norcen holds interests in one offshore exploration permit, covering 294,000 gross (74,000 net) acres and one onshore permit covering 89,000 gross (18,000 net) acres in the Taranaki Basin, located on the west coast of New Zealand's North Island. Interests are also held in two production licences comprising 86,000 gross (17,000 net) acres surrounding oil and gas discoveries at Kupe South and Toru. As the result of an intensive gas marketing campaign in 1991, a number of potential purchasers for the Kupe South gas have been identified. No further development of these discoveries is planned, however, until a formal gas sales contract is in place.

SOUTH AMERICA

Argentina

During 1991, Norcen expanded its position in Argentina with the acquisition of a 50 per cent interest in an additional onshore block. Year-end land holdings in Argentina comprised interests ranging from 30 to 50 per cent in four onshore blocks and a 30 per cent interest in an offshore block.

Early in 1992, arrangements were being finalized to acquire a 20 per cent interest in the 20,700 acre Faro Virgenes block, located in southern Argentina. The closing and effective date of the transaction is expected to be in February, 1992. Reserves being acquired are estimated at 46 billion cubic feet of gas and 62,000 barrels of oil and condensate. The acquisition is expected to add 114 barrels per day of oil and gas liquids and 8.4 million cubic feet per day of gas to Norcen's production base in Argentina.

The 1991 exploration program included initial evaluation of acreage acquired in 1990 and the drilling of the Company's first well in Argentina. The well, drilled on the Nacunan block, was dry and abandoned but Norcen's operatorship of the drilling program provided valuable insight into the operating environment in Argentina. Plans for 1992 include the drilling of two exploratory wells, one onshore and the other offshore.

Chile

In Chile, the Company holds a 30 per cent interest in the 0.7 million acre Salar de Pedernales block. Earlier plans to drill a well on this block in 1991 were deferred pending acquisition of additional seismic. Due to ongoing delays in securing this data, the planned well is not now anticipated before 1993.

SOUTHEAST ASIA

Malaysia

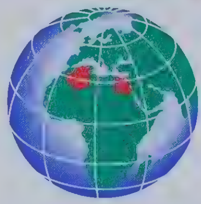
The major success of Norcen's international program in 1991 was the discovery of hydrocarbons in each of the three wells drilled on the 1.5 million acre PM-3 block offshore from the Malaysia Peninsula. The Bunga Orkid well tested at combined rates of 4,400 barrels per day of oil and condensate and 14.0 million cubic feet per day of gas from two zones. The Bunga Raya well tested at rates of 5,700 barrels per day of oil and condensate and 41.6 million cubic feet per day of natural gas. The Bunga Pakma well, which tested mainly gas, was plugged and abandoned as a non-commercial prospect. The development potential of Bunga Orkid and Bunga Raya is under study for development of gas as well as oil, as Malaysia is rapidly expanding its internal use and foreign sales of natural gas. The increased emphasis being directed towards development of the country's natural gas resource base by the Malaysian

government has caused Norcen and its joint venture partners to re-examine gas prone prospects on the PM-3 block. Tentative plans for 1992 include follow-up drilling at Bunga Orkid and two exploration wells on untested structures.

Indonesia

Early in 1991, Norcen acquired interests in two blocks in Indonesia covering a total 8.3 million gross (1.7 million net) acres. One of the blocks, the Brantas block, is located in a proven hydrocarbon region, on and offshore the island of Java. This block offers considerable and immediate exploration potential. The other block located on Kalimantan is primarily a grassroots exploration prospect. Accomplishments on the Brantas block in 1991 included onshore field geological studies and major onshore and offshore seismic acquisition and processing. Four play types, offering potential for giant size oil and gas accumulations, have been developed and specific drilling prospects are being defined. Following recent discoveries in surrounding areas, a major gas pipeline is currently being scheduled for construction along the northern border of the block. When in place, this pipeline should increase the viability of gas production on the Brantas block. Plans for 1992 include additional, extensive seismic work both on and offshore and the drilling of at least one deep well on the block.

NORTH AFRICA



Egypt

Offshore Egypt in the Gulf of Suez, the first of two appraisal wells being drilled on a previously proven hydrocarbon column on the Hareed block was abandoned early in 1992. While no hydrocarbons were encountered, valuable geological data was gathered which helped to confirm the location of the second well which began drilling in mid-January. Full results of the drilling program are not anticipated until March, 1992. Norcen holds a 20 per cent interest in the Hareed block.

Algeria

Late in 1991, Norcen acquired a 45 per cent interest in the 3.3 million acre Mehaiguene block in northern Algeria. This block lies alongside the giant Hassi R'Mel oil and gas field. As the result of recent political developments in Algeria, plans to carry out an extensive seismic program on the block in 1992 are currently under review.

1991 Drilling Statistics

	Oil		Gas		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Western Canada								
Exploration	12	7.3	8	4.7	19	13.5	39	25.5
Development	91	38.4	25	7.3	13	6.1	129	51.8
	103	45.7	33	12.0	32	19.6	168	77.3
United States								
Exploration	1	0.4	1	0.6	12	7.4	14	8.4
Development	4	2.0					4	2.0
	5	2.4	1	0.6	12	7.4	18	10.4
International								
Exploration	2	0.4	1	0.2	8	1.8	11	2.4
Development	3	0.2					3	0.2
	5	0.6	1	0.2	8	1.8	14	2.6
Total wells drilled	113	48.7	35	12.8	52	28.8	200	90.3

The figures in the above table do not include farm-outs by Norcen to others, which resulted in 11 oil, 20 gas and 15 dry and abandoned wells. Of these, 36 were drilled in Canada, 9 in the U.S. and one in Australia.

Crude Oil and Natural Gas Liquids

Norcen's crude oil and natural gas liquids production from all sources averaged 54,533 barrels per day in 1991, down four per cent from the record setting 56,762 barrels per day achieved in the preceding year. The shortfall reflected conventional crude oil gains in Canada and the U.S. being more than offset by a decline in Australia. The gain in Canada would have been greater except for production cutbacks resulting from capacity constraints on the Interprovincial Pipeline system for most of the year. Some easing of this situation is expected by mid-1992 when a currently ongoing hydrostatic testing program is scheduled to be completed. Another factor impeding the Company's production growth was a deterioration in heavy oil prices which caused the Company to cut back its heavy oil production by an average of 753 barrels per day.

The market for Canadian heavy and medium sour crudes in general remained weak throughout 1991 and into early 1992 resulting in exceptionally wide price differentials relative to the price for light sweet crude. Some easing of this problem may occur later in 1992 when the new bi-provincial heavy oil upgrader in Saskatchewan comes on stream and additional heavy oil refining capacity at Conoco Inc.'s refinery at Billings, Montana, becomes available.

In Australia, the Jabiru field was shut down for almost five months, while the floating production system was in drydock undergoing refit and repair. As a result, Norcen's share of production from Jabiru in 1991 averaged 3,372 barrels per day, down from 6,642 barrels per day in the previous year.

In the U.S., Norcen's production of crude oil and

Oil and Gas Liquids Production

(Barrels per day before royalties)	1991	1990
Alberta		
West Pembina	5,389	6,715
Lindbergh	3,784	4,196
Pembina	2,207	2,198
Golden	1,806	841
Provost/Bodo	1,720	2,216
Harmattan	1,696	1,540
Enchant/Hays	1,608	1,105
Countess/Lathom	1,217	1,367
Taber North	1,150	1,145
Spirit River	1,107	1,001
Snipe Lake	985	801
Wayne-Rosedale/Wintering Hills	976	1,090
Evi	948	749
Cherhill	902	963
Stettler	792	718
Chinchaga	698	392
Other	10,876	10,197
Synthetic Crude	2,345	2,629
Processing Liquids	928	1,366
	41,134	41,229

	1991	1990
Saskatchewan & Manitoba		
Colgate	422	510
Tatagwa	358	409
Royalty Interests	459	443
Other	1,243	1,320
	2,482	2,682
British Columbia		
West Eagle	683	763
Peejay	134	171
Other	104	72
	921	1,006
United States		
Eugene Island	1,015	
Laurel	301	492
Ellisville	247	
Other	957	925
	2,520	1,417
Australia		
Jabiru	3,372	6,642
Challis	4,065	3,786
Skua	39	
	7,476	10,428
Total	54,533	56,762

natural gas liquids increased to 2,520 barrels per day from 1,417 barrels per day in 1990, reflecting the success of exploration and development programs in the Gulf Coast region over the past two years.

For 1992, Norcen is forecasting an improvement in its crude oil and natural gas liquids production to the 57,900 barrels per day level with the gain reflecting recent development successes in Canada and anticipated completion of the acquisition of PanCanadian Petroleum's U.S. oil and gas assets early in the year.

The average price realized by Norcen for its oil and natural gas liquids production in 1991 was $18.85 per barrel, down from $23.65 per barrel in 1990. The relatively high average price received in 1990 was mainly the result of exceptional price rises which occurred following the August 2, 1990 Iraqi invasion of Kuwait. These high prices evaporated rapidly in mid-January 1991, with the beginning of the military offensive against Iraq.

Natural Gas

Norcen's production of natural gas rose to a record 251.2 million cubic feet per day in 1991, up from 247.5 million cubic feet per day a year earlier. In Canada, increased volumes taken by Progas Limited under contractual arrangements initiated in 1990, offset lower volumes taken by other major buyers. In the U.S., gas production climbed 24 per cent to 30.3 million cubic feet per day, again reflecting new production coming on stream from drilling successes.

In 1992, the Company expects further production gains, with Canadian volumes increasing to 230 million cubic feet per day and U.S. volumes forecast to rise to 35 million cubic feet per day. In addition, 11 million cubic feet per day of gas production is anticipated from Argentina.

The average price realized by Norcen for its Canadian natural gas production in 1991 declined to

Natural Gas Production

(Millions of cubic feet per day before royalties)	1991	1990		1991	1990
Alberta			British Columbia		
Harmattan	25.7	19.0	Jedney	6.9	8.0
West Pembina	11.8	10.4	Sikanni	3.8	0.8
Chinchaga	10.9	6.2	Royalty Interests	5.4	3.7
Wildcat Hills	10.4	10.8	Other	4.2	3.7
Minnehik-Buck Lake	9.8	14.5		20.3	16.2
Wintering Hills	8.5	11.1	Saskatchewan		
Hoadley	6.1	9.9	Beacon Hill	2.4	3.9
Cherhill	5.5	4.7	Hatton	1.7	1.3
Ghost Pine	4.8	3.3	Other	0.8	0.4
Hairy Hill	4.1	4.7		4.9	5.6
Boyer	4.0	6.2	United States		
Verger	3.9	4.8	Bayou Vermilion	13.7	9.4
Pembina	3.5	3.6	Paige Lake	3.5	7.7
Majorville	3.1	3.8	Brazos	3.2	0.9
Beauvallon	3.0	3.0	Eugene Island	3.2	
Crossfield	3.0	4.2	Other	6.7	6.5
Other	77.6	81.0		30.3	24.5
	195.7	201.2	Total	251.2	247.5

$1.49 per thousand cubic feet, from $1.67 per thousand cubic feet in 1990. For natural gas produced in the U.S., Norcen realized an average U.S. $1.89 per thousand cubic feet, down from U.S. $2.03 per thousand cubic feet in the previous year. The price declines reflected the surplus of Canadian and U.S. gas deliverability overhanging North American markets.

Transmission and Distribution

In the Edmonton area of Alberta, Norcen owns and operates a natural gas system comprising natural gas processing plants at Fort Saskatchewan and Carbondale, and more than 550 miles of gathering and distribution pipelines. In 1992, Norcen plans to expand this gas system through the construction of a 20-mile pipeline to tie in additional Company-owned and third party reserves in the Golden Spike area.

Natural gas volumes sold through the system in 1991 averaged 51.7 million cubic feet per day, compared to 55.2 million cubic feet per day in 1990.

Norcen also owns and operates crude oil gathering and transmission pipelines in Western Canada. Shipments through this system in 1991 averaged 76,200 barrels per day, compared to 77,900 barrels per day in the previous year.

RESERVES

In 1991, Norcen again more than replaced produced reserves from exploration and development success, augmented by producing property acquisition. The following table illustrates the changes in Norcen's established reserves in 1991.

Established Reserves[1]

	Crude Oil and Natural Gas Liquids (*Millions of barrels*)				Natural Gas (*Billions of cubic feet*)			
	Canada	United States	International	Total	Canada	United States	International	Total
Reserves, January 1, 1991	153.0	6.9	11.7	171.6	1545	154	2	1701
Revisions of previous estimates	3.8	(0.1)	(0.8)	2.9	56	(9)	4	51
Purchase of reserves in place	6.5	19.0		25.5	16	17		33
Extensions, discoveries and other additions	12.2	1.1		13.3	93			93
Production	(15.9)	(0.9)	(2.7)	(19.5)	(81)	(11)	(1)	(93)
Reserves, December 31, 1991	159.6	26.0	8.2	193.8	1629	151	5	1785

[1] Established reserves comprise proved reserves plus risk-adjusted probable additional reserves which have been adjusted downward by 50 per cent, and 70 per cent in the case of certain heavy oil reserves, to reflect uncertainty as to volume estimates and recovery factors.

PROPANE MARKETING

Norcen's wholly-owned subsidiary, Superior Propane Inc., distributes propane across Canada and the U.S. midwest for residential, commercial, industrial, agricultural and automotive use. With Canadian propane sales of 1.1 billion litres in 1991, representing an estimated 40 per cent of the domestic retail market, Superior ranks as the country's leading marketer of propane, propane-consuming products and related services. In the U.S., Superior's marketing operations are carried on by its wholly-owned subsidiary, Skelgas Propane, Inc. Operating in 10 midwestern states, Skelgas' propane sales in 1991 totalled approximately 426 million litres. Superior's combined Canadian and U.S. sales position the Company as one of the top five retail marketers in North America.

Superior's wholly-owned subsidiary, ETI Energy Transportation Inc., provides Superior with transportation and propane procurement services. ETI has a fleet of 65 cargoliners and over 250 owned or leased railcars.

Operating income from propane marketing operations in 1991 was $29.3 million, compared to $33.4 million in the previous year. The decline reflected reduced sales volume in both Canada and the U.S., resulting from warm weather patterns during the winter heating season and the continuing effects of the recession. In Ontario and Quebec, where Superior is a major propane supplier, the commercial, construction, forklift and auto propane sectors of the market were hit particularly hard by the recession. Another factor affecting U.S. propane sales was near drought conditions in the midwest during the summer, which reduced crop drying demand for propane.

The decline in operating income was cushioned to some degree by an ongoing program of cost reduction, both as regards operating activities and general and administrative expense. In the U.S., this process was accompanied by a general restructuring of the newly-acquired Skelgas operation. A U.S. head office was established in the Chicago area and the fertilizer operations acquired with the purchase of Skelgas were sold. Progress also was achieved in rationalizing and streamlining the U.S. field organization, sales force and branch network. Fourteen Skelgas branches were swapped for nine of another U.S. retailer, providing increased propane throughput at the remaining branches and contributing further to operating efficiencies. The overall process of decentralization and automation of the U.S. network is expected to be completed during 1992.

Superior's plans for 1992 also include an examination of the fundamentals of how it does business, with an emphasis on expense reduction at all levels of the organization. The cost structure will be lowered to a level consistent with reduced volumes which have resulted from the economic downturn. Further rationalization of the Canadian and U.S. operations will be made. The Propane Marketing Division will continue to pursue strategic initiatives and expansion plans to position itself as the leading propane marketer in North America.

Propane Marketing

With propane sales totalling 1.1 billion litres in Canada and 426 million litres in the U.S., Superior Propane ranked as one of the top five retail marketers of propane in North America in 1991.

Considerable progress was achieved in rationalizing and streamlining the U.S. Skelgas network, acquired in the latter part of 1990.

MINERAL RESOURCES

Norcen's Mineral Resources Division consists of its 100 per cent ownership interest in Labrador Mining and Exploration Company Limited, which holds iron ore and other resource assets, principally an 11 per cent equity interest in Iron Ore Company of Canada ("IOC") and a royalty interest in IOC iron ore sales.

Operating income from minerals operations in 1991 amounted to $29.6 million, virtually unchanged from the $30.3 million achieved in 1990. While IOC's ore sales in 1991 increased to 15.3 million tonnes from 14.5 million tonnes a year earlier, the average price of ores sold declined to U.S. $28.93 per tonne from U.S. $29.78 per tonne in 1990.

Due to the general economic slowdown in the steel industry, both royalty and dividend income from IOC are expected to be lower in 1992.

CORPORATE RESPONSIBILITIES

The Environment

Compliance with government regulation and industry standards is the cornerstone of Norcen's environmental code of practice. By addressing environmental considerations in all aspects of business planning, together with regular environmental audits of major Company-operated facilities, the Company strives for full compliance in all of its activities.

During 1991, audits were carried out at 31 locations. The goal of the program is to audit all Norcen-operated facilities at least every three years.

Other environmental protection activities included the development of a comprehensive computer-based system to monitor atmospheric emissions from operated facilities, and participation in a variety of oil spill research and development programs. Norcen recognizes its commitment to the environment as a business priority which must be maintained even during difficult economic times.

Norcen In the Community

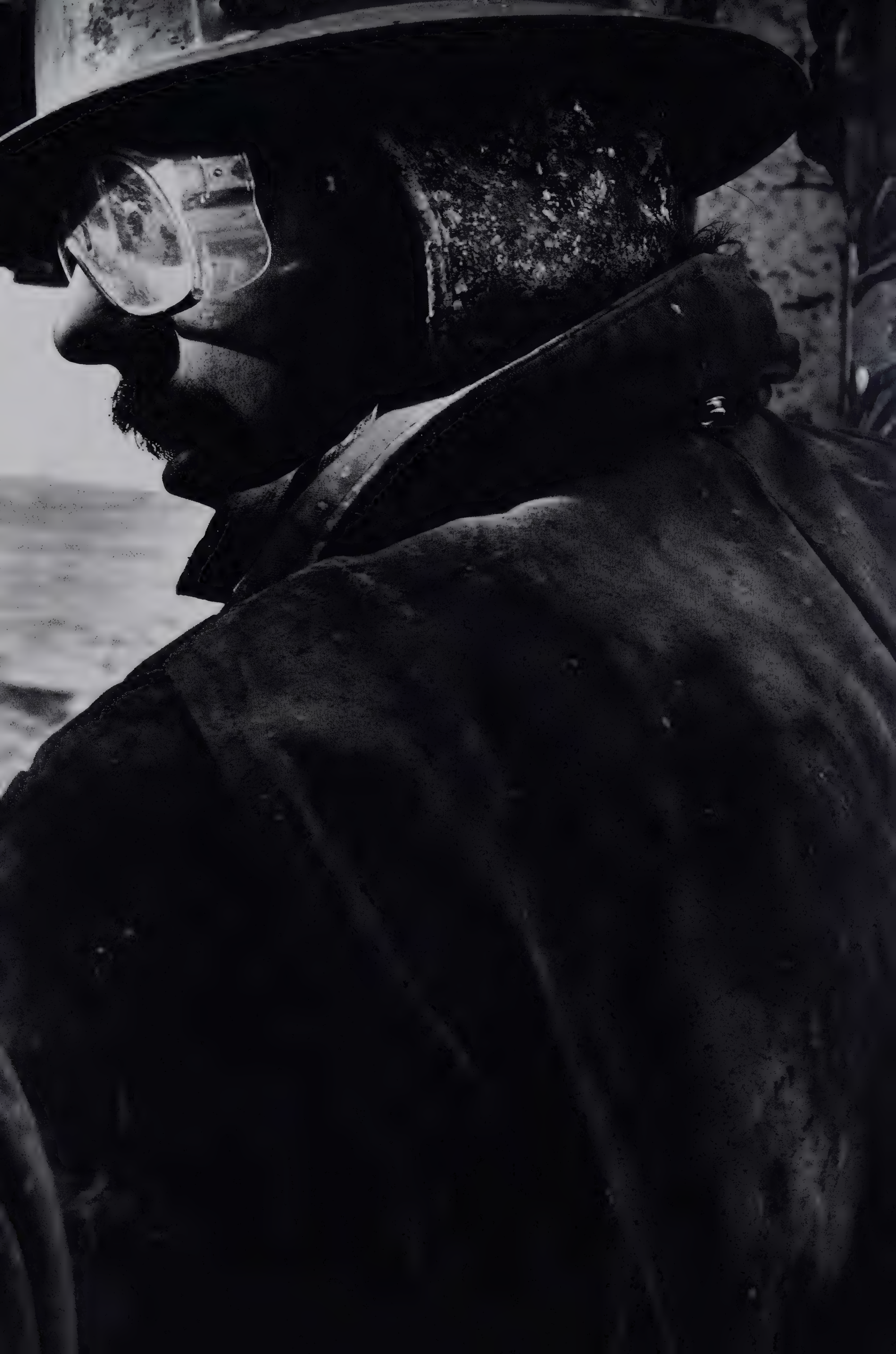
In 1991, Norcen completed the first year of a three-year household toxic roundup program in 24 Alberta communities where the Company has employees and operations. Norcen's funding of this project resulted in the collection and disposal of over 375 barrels of household toxic waste.

Another major project saw the completion of an extensive community relations training program for over 450 of Norcen's field and Calgary office staff. The program endeavored to establish consistent community relations practices in those communities where the Company operates.

Norcen's donation budget continued to provide financial support to a variety of non-profit organizations in communities across Canada. Total donations to programs in 1991 amounted to more than $774,000 and included a new emphasis in education including a partnership with the Clarence Sansom School in Calgary. Close to 100 employees volunteered to assist with the partnership.

Norcen's four-year commitment to the Canadian Association of Gerontology was completed in 1991, and the research and fellowships program was renewed for a further three years.

Wildcat blowouts showering black rain are part of the lore from the industry's romantic past. A gambler's hunch rewarded by the fortunes of chance. Today, oil finds are anything but blind luck. Recovering hydrocarbons from the earth is a carefully calculated business, requiring ingenuity, documented research, scientific interpretation and economic savvy. Frontier wildcats are more the exception than the rule. Engineering acumen focuses on maximizing existing assets by tapping the full potential of known reserves. Sophisticated geophysical instruments are helping to discover new reservoirs in old oil fields, and enhanced recovery methods are extending the productive life of operating wells.



However precise the geophysical measurements and vast the documentation, all evidence is circumstantial, and the presence of oil can only be confirmed by drilling to the target "pay zone" in the earth.

Oil concepts begin with a seismic anomaly suggesting the existence of an oil-bearing "trap" underground, but before a "play" is put in motion, engineers weigh its potential against the cost of bringing its volumes on-stream and getting them to market.

Every clue is used in the drilling process to detect hydrocarbons. The weight indicator tells drillers their penetration rate; faster rates could mean porous materials containing oil or gas. Even rocks ground up by the drill bit and mud are examined for signs of hydrocarbons.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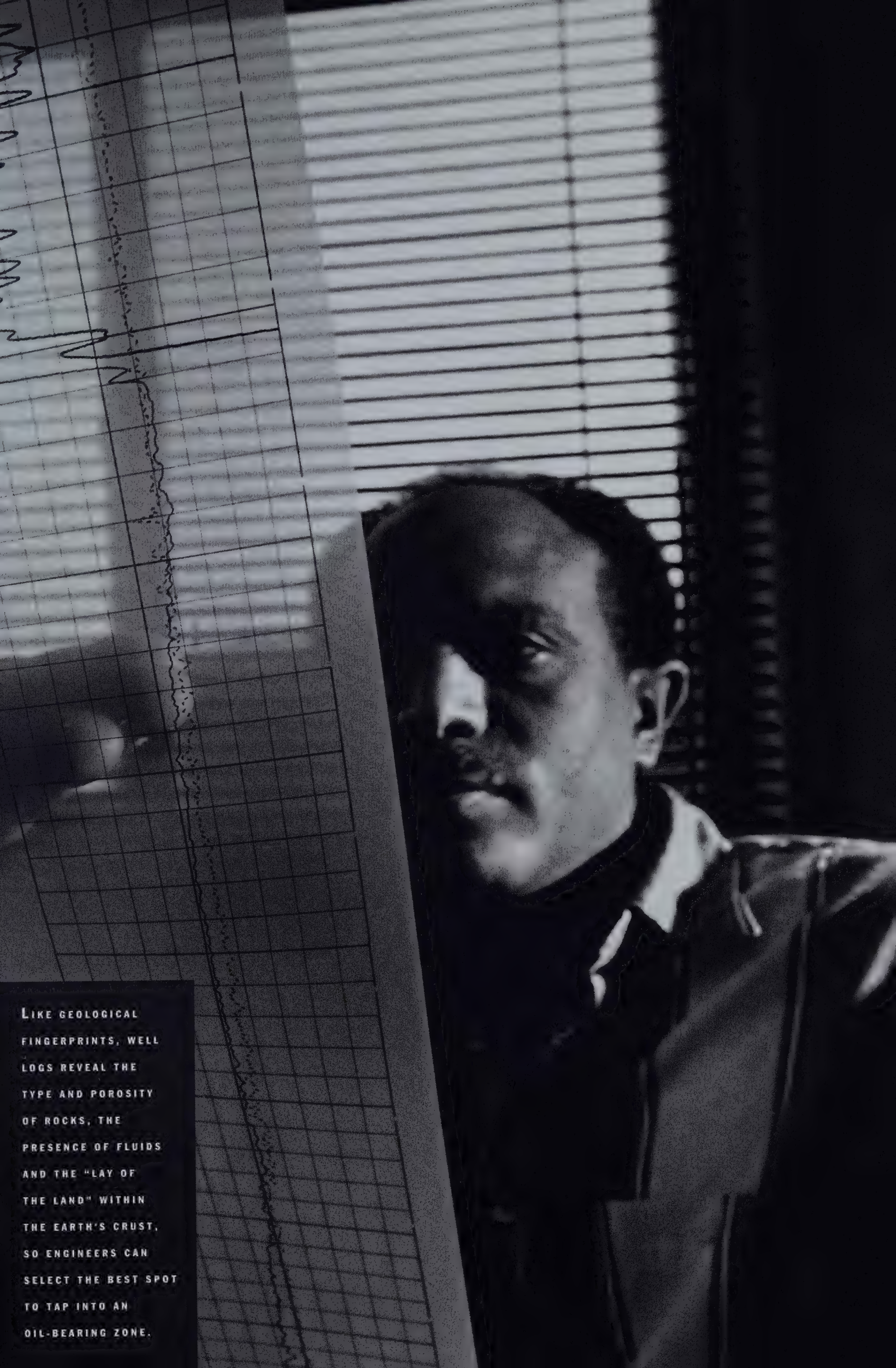
LIKE FILLING IN A PICTURE BETWEEN THE DOTS, THE EXPLOITATION TEAM EXAMINES WELL DATA AND CORE SAMPLES FROM EXISTING OIL FIELDS TO FORM ASSUMPTIONS ABOUT WHETHER MORE DEPOSITS LIE BEYOND THE EDGES OF POOLS OR BETWEEN EXISTING WELLS.

DRILLING CONTINUES AROUND-THE-CLOCK EVEN WHEN TEMPERATURES PLUMMET TO −40° F., FORCING CREWMEN TO CLAMBER OVER THE RIG TO THAW OUT FROZEN PIPES WITH HOT STEAM.



Like geological fingerprints, well logs reveal the type and porosity of rocks, the presence of fluids and the "lay of the land" within the Earth's crust, so engineers can select the best spot to tap into an oil-bearing zone.

Economic realities sometimes make working an isolated well site not worth the effort. Acquisition and divestiture engineers look for ways to optimize the asset base by determining which properties should be bought, sold or traded.

Drillers say simply their job is to "dig a hole" — a hole that penetrates thousands of feet beneath the ground, intersecting horizon after horizon of ancient domes and buried seas, in quest of hydrocarbons.

The mixture of oil, natural gas and salt water from a well must be piped to a battery site where the hydrocarbons are extracted and processed into transportable products.

Referring to 3-D seismic maps, development engineers assess the size of the pool, type and value of the reserve, and most cost-effective drilling program to maximize production and recovery of trapped oil.

As drilling proceeds, the earth unravels its story in layer upon layer — a drama that spans billions of years and provides clues to the origin and evolution of life on the planet.

Drillers speak a language of their own. Roughnecks work the rig floor, stabbing joints onto the drill string, using dope to lubricate the pipe threads and mud to weight the hole as they dig toward the sweet spot in the earth.

IMPROVED WELL COMPLETION TECHNIQUES HELP EXTRACT MORE OIL BY DISSOLVING OR FRACTURING ROCK FORMATIONS TO ENHANCE PERMEABILITY SO HYDROCARBONS CAN FLOW MORE FREELY TO THE SURFACE.

ENGINEERS MONITOR EACH OPERATING WELL SITE THROUGHOUT ITS PRODUCING YEARS, DEVELOPING UPDATED PRODUCTION STRATEGIES TO OPTIMIZE RECOVERY AND EXTEND THE ECONOMIC VALUE OF THE RESERVE.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Today's high costs and inherent risks of drilling for oil leave little room for one-shot anomalies and sites that offer faint hope of producing commercial quantities of gas or oil. The decision to move the play and begin drilling must be based on economic equations. Engineers are using new technologies to increase well production and maximize recovery so that wells considered marginal a few years ago are now proving profitable. Bright prospects for the future lie in "our own front yard." Oil fields are being revisited with more sophisticated technology and a greater understanding of the pressures, formations and cataclysmic forces that shape the horizons in the earth.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto.

Norcen's earnings and cash generated from operations declined from the record levels achieved in 1990 when financial performance benefited from Iraq's invasion of Kuwait and the resultant escalation in world oil prices through the last five months of 1990. After the commencement of hostilities in the middle of January 1991, prices declined by more than $10 per barrel ("/bbl") and generally fluctuated through the balance of the year at monthly averages between $20–24/bbl until a further fall-off in December 1991 clearly highlighted the extreme sensitivity of Norcen's earnings to the effects of changing oil prices. Another major contributing factor was the falling prices for natural gas due to a combination of the recent warmer than normal winters and the over-supply situation in the North American market. Continuous pressure has been exerted on gas producers to cut prices in order to maintain production levels.

NET EARNINGS

(Millions of dollars)

Despite liquids prices which were generally comparable, 1991 financial performance also declined substantially from 1989 due to higher operating costs in the Oil and Gas Division including lifting costs, administration and particularly depletion expense, together with a major reduction in contributions from the Propane Marketing and Mineral Resources Divisions.

Divisional operating income, earnings and cash generated from operations for the years ended December 31, 1991, 1990 and 1989 were as follows:

(Millions of dollars)	1991	1990	1989
Operating Income			
Oil and Gas Division	$ 99.2	$214.5	$151.7
Propane Marketing Division	29.3	33.4	45.9
Mineral Resources Division	29.6	30.3	45.2
Investment and Other Income	16.0	21.4	11.1
	$174.1	$299.6	$253.9
Interest and Financial Expense	80.6	73.6	67.1
Income Taxes	49.1	95.2	75.5
Minority Interest	0.3	1.6	1.1
Net Earnings	$ 44.1	$129.2	$110.2
Cash Generated from Operations	$279.2	$356.1	$300.7

Operating Results

Oil and Gas Division—After the record year in 1990 due to rising oil prices resulting from the Persian Gulf crisis, operating income declined 54% to $99.2 million in 1991. Out of the total decrease of $115.3 million in operating income, $79.2 million was the result of lower oil and gas revenues which primarily related to lower prices. The balance was due to higher operating costs and administration ($13.2 million), increased depletion ($11.0 million) and a reduced contribution from the Industrial Gas System ("IGS") and other operations ($11.9 million).

An analysis of production volumes is:

(Daily production)	1991	1990	1989
Liquids *(bbls)*:			
Canada	44,537	44,917	39,671
Australia	7,476	10,428	5,401
United States	2,520	1,417	1,993
Total	54,533	56,762	47,065
Natural Gas *(mcf)*:			
Canada	220,910	223,092	172,834
United States	30,334	24,455	31,074
Total	251,244	247,547	203,908

Norcen anticipates that in 1992 total liquids production volumes will be approximately 57,900 barrels per day ("b/d") and natural gas volumes will be approximately 276 million cubic feet per day ("mmcf/d").

West Texas Intermediate ("WTI") prices averaged U.S. $21.47/bbl in 1991 compared with U.S. $24.50/bbl in 1990 and U.S. $19.36/bbl in 1989. The reduction from the 1990 level was the principal factor for the lower sales revenues. The strong Canadian dollar which averaged 87.3 U.S. cents in 1991, in comparison to 85.7 U.S. cents in 1990, also had an adverse impact by reducing Canadian prices at the wellhead. The overall average price realized by Norcen for its worldwide production of oil and natural gas liquids in 1991 was $18.85/bbl compared to $23.65/bbl in 1990 and $18.72/bbl in 1989. Norcen projects that prices are unlikely to improve in 1992 and for internal budgetary purposes is using an average WTI/bbl price of U.S. $19.50/bbl.

In Canada, liquids production declined marginally from 1990 levels by 380 b/d although conventional crude production was up 1,069 b/d despite pipeline apportionment and feeder constraints which offset production gains. Continuing constraints from an ongoing pipeline testing program are expected to again curtail production through the first half of 1992.

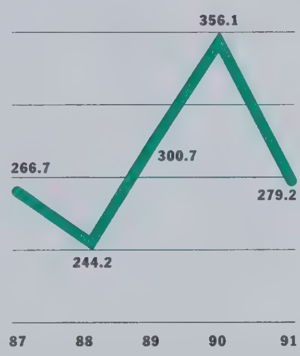
Norcen's share of production from the Suncor Inc. ("Suncor") synthetic oil plant was down from last year's level due to lower prices in 1991, which impacted the price-sensitive royalty rate, as well as to increased off-lease mining in 1991. Production volumes were 2,345 b/d compared to 2,629 b/d last year. Volumes are expected to fall further to 1,600 b/d in 1992, mainly because the anticipated decline in oil prices is expected to reduce Norcen's royalty rate.

Heavy oil production declined from 7,571 b/d in 1990 to 6,818 b/d in 1991 as a result of management's decision to shut-in production due to increasing heavy oil price differentials. On January 31, 1992, Norcen announced a further reduction in its heavy oil operations and additional shut-in production of 1,600 b/d.

Natural gas production in Canada was 220.9 mmcf/d compared to 223.1 mmcf/d in 1990 as nominations from purchasers continued to decline as a percentage of contracted volumes. The average price realized was $1.49 per mcf versus $1.67 per mcf in 1990. Gas prices throughout North America continue to be affected by low demand related to warmer than normal weather patterns, in both the 1990–91 and 1991–92 winter heating seasons. There has also been a levelling of peak demands and associated premiums during winter months, related to increased development and usage of storage facilities, as well as additional pipeline capacity. More producers are committing to firm service on major pipeline systems and selling at lower prices to ensure cash flow covers operating costs and pipeline demand charges. Gas prices will continue to be affected by the accelerated deregulation of North American pipeline systems by the Federal Energy Regulatory Commission ("FERC") and the restructuring of consumer markets by state public utilities commissions ("PUC"), particularly California. Most PUC agencies are requiring local distribution or utility companies to move supply portfolios to a greater proportion of spot or short term sales contracts. Consequently, although Norcen's Canadian sales volumes are forecast to rise to 230 mmcf/d in 1992, prices are expected to continue to decline.

CASH GENERATED FROM OPERATIONS

(Millions of dollars)



Contribution to operating income from Australian operations declined from $50.8 million in 1990 to $24.1 million in 1991 as a result of lower production volumes and prices. The Jabiru floating production facility was in dry dock from April to September

for major maintenance overhaul. As a result, production from Jabiru was down 3,267 b/d from 1990 to 3,375 b/d in 1991. Total Australian production was 7,476 b/d versus 10,428 b/d in 1990. Resource Rent Tax ("RRT") declined from $34.4 million in 1990 to $14.1 million due to lower revenues and to legislation changes in 1991 which allowed deduction of certain expenditures outside the producing permit to be claimed against production revenues. Despite a 28% reduction in production levels, depletion and depreciation expense increased $2.6 million or 14% on account of the significant increase in the depletion rate resulting from the build-up in the asset base without a corresponding increase in reserves. While Norcen's Australian production rate early in 1992 was approximately 8,300 b/d, the anticipated average over the year is forecast to be 7,400 b/d which reflects significant performance declines at all three producing fields including the newly completed Skua project which came onstream in December 1991.

CRUDE OIL AND NGL PRODUCTION

(Thousands of barrels per day)

Contribution from U.S. operations increased $3.6 million in 1991. Oil and gas production increased 1,103 b/d and 5.9 mmcf/d respectively to 2,520 b/d and 30.3 mmcf/d respectively due to development gains as well as the commencement of production in July from Eugene Island Block 142 in the Gulf of Mexico. In November 1991, Norcen signed a letter of intent to acquire the U.S. assets of PanCanadian Petroleum Company ("PanCanadian") for U.S. $39 million. The acquisition is expected to close in March 1992. This, together with a full year's production from Eugene Island, is projected to increase Norcen's U.S. production to 3,900 b/d of oil and 34.9 mmcf/d of gas in 1992. Despite a 38% increase in equivalent production, depletion and depreciation increased only 26% due to the inclusion of the Lion Rock Unit reserves and future development costs to the depletion base in the fourth quarter.

Consolidated lifting costs have increased 10% or $11.2 million over 1990, which had increased 36% over 1989. The unit costs of oil and gas production for the last three years are:

	1991	1990	1989
Oil and gas liquids *(per bbl)*	$4.73	$4.13	$3.64
Natural gas *(per mcf)*	$0.47	$0.44	$0.42

Unit costs for oil increased in 1990 due to the high percentage component of heavy oil costs, reflecting the acquisition of the Westmin assets in late 1989. In 1991, the increase was mostly on account of restricted production levels. Low nominations and increased shut-in volumes contributed to the rise in natural gas unit costs.

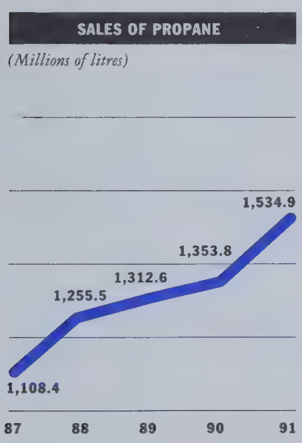
Commencing in 1991, Norcen began to provide for future site restoration costs in accordance with the recently issued Canadian Institute of Chartered Accountants ("CICA") accounting recommendations on capital assets. This requires Norcen to determine its future obligations for site restoration including the cost for the abandonment of oil and gas wells and associated facilities and to amortize the cost over the life of its reserves. Although the Company has estimated the future cost of well abandonments, the lack of definitive reclamation standards makes it impractical to quantify the cost of abandoning facilities, including gas processing plants, and hence no provision has been made for facility abandonment costs. Moreover, no major facilities are scheduled for closure in the next ten years. The amount expensed in 1991 was $6.3 million or 18 cents per equivalent barrel of production.

Average depletion rates per equivalent barrel in each of the Company's major cost centres are:

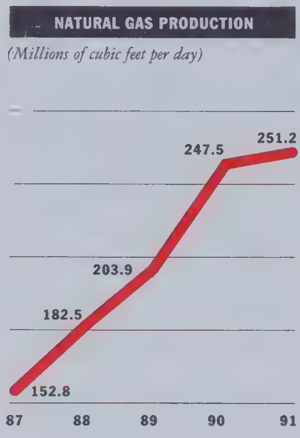
	1991	1990	1989
Canada	$4.18	$ 4.03	$ 3.65
United States	$9.86	$10.77	$10.11
Australia	$7.82	$ 4.75	$ 5.46

Administration costs climbed $6.7 million or 17% in 1991 versus $4.2 million or 12% in 1990. In September 1991, Norcen undertook a staff reduction program at a cost of $3.7 million of additional severance and early retirement costs. A substantial portion of these costs contributed to the increase in administration costs in 1991. The benefits to be realized in the form of salary and benefits savings estimated at $3.3 million, will commence in 1992. Additional cost reduction programs have been implemented at the Company's offices in the U.S. and Australia.

Propane Marketing Division—Superior's contribution to operating income, which had declined from $45.9 million in 1989 to $33.4 million in 1990, declined again in 1991 to $29.3 million. Sales revenue and volumes increased by 7% and 13% respectively but this was accounted for by the inclusion of the financial results of the Skelgas acquisition made in September 1990 for a full twelve months. Total sales volumes were 1.11 billion litres in Canada and 0.42 billion litres in the U.S. compared to 1.20 billion litres in Canada and 0.16 billion litres in the U.S. in 1990 and 1.31 billion litres in Canada in 1989. In Canada, volumes in all market segments were below 1990 levels due to warm weather and the deepening recession in Eastern Canada. Degree day temperatures were substantially over normal in virtually all of the division's major marketing areas west of Montreal. For example, Montreal was 7%, Toronto and district 12%, and Calgary 11% warmer than normal in 1991.



Skelgas sales volumes were similarly affected. In addition, the recession which extended deeper than Norcen expected, continued to affect the commercial and industrial segment markets and will continue to do so until there is some recovery in the Canadian and U.S. economies.



In the face of sales volume and revenue losses, Superior Propane made significant efforts to reduce its operating cost structure. Although costs increased 7% overall, this reflected the inclusion of the twelve months of the Skelgas operations. In Canada, operating costs were held to a 1% increase over 1990 levels.

Although Skelgas contributed $1.6 million to operating income versus a $0.9 million loss in 1990, this was well below the expected level of performance again for similar reasons to that which affected Superior's performance in Canada.

Assuming reasonable economic recovery in both countries, together with a return to more normal weather patterns, sales volumes in 1992 are projected to increase to 1.64 billion litres from the 1.53 billion litres in 1991. This should allow for an improvement in performance from the Propane Marketing Division.

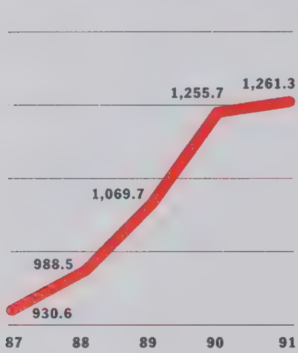
Mineral Resources Division—Mineral resources income declined slightly to $29.6 million compared to $30.3 million in 1990 and $45.2 million in 1989. Dividends from Iron Ore Company of Canada ("IOC") were $5.9 million, up $0.6 million from 1990 but down $4.9 million from 1989. Operating income in 1989 also included $4.6 million in dividends from

the Company's equity interest in M.A. Hanna Company which was sold in November 1989 as part of the Westmin acquisition and a $5.9 million gain on the sale of Norcen's interest in the Obed Marsh coal project which had been written off in 1986.

IOC's sales tonnage was 15.3 million tonnes versus 14.5 million tonnes in 1990 and 15.2 million tonnes in 1989. The average price was U.S. $28.93 per tonne in 1991 versus U.S. $29.78 per tonne in 1990 and U.S. $28.43 per tonne in 1989. Although total sales tonnage was up in 1991 over 1990, the increase was primarily in lower priced ore concentrates which was offset by a 1.0 million tonne reduction in higher priced iron pellets. As a result, total sales revenues and therefore Norcen's royalty income was unchanged although a strengthening Canadian dollar had a negative impact on the U.S. denominated IOC royalties.

SHAREHOLDERS' EQUITY

(Millions of dollars)



It is anticipated that the slow-down in the steel industry in both the U.S. and Canada from a continuation of the recession will reduce iron ore demand and therefore affect IOC's revenues and profitability in 1992. As a result, Norcen's royalty and dividends are projected to be slightly lower than the 1991 level.

Corporate

Investment and other income declined to $16.0 million in 1991 due to lower interest rates. Dividends on the Brascan, Mico and Varitech investments are related to the prime rate of interest which in 1991 dropped to levels not seen for many years. In addition, the level of short-term surplus funds mostly in the form of U.S. or Australian currency account holdings, was slightly down and therefore generated lower interest income than in 1990.

Interest on long-term debt was $83.0 million in 1991 versus $76.5 million in 1990 and $63.7 million in 1989. The average 1991 debt level increased due to additional Euroloans taken down in 1990 principally to finance the Skelgas acquisition. However, this was offset in part by the benefit of lower interest rates on debt tied to floating rates.

Income tax expense fell by $46.1 million in 1991 as a result of the decrease in pre-tax earnings of $131.2 million. The increase in the effective tax rate from 42.4% in 1990 to 52.7% in 1991 is principally attributable to an increased differential in the amount of non-deductible crown royalty charges versus the federal resource allowance, and fixed amount items, such as the Large Corporations Tax and withholding taxes, were a higher percentage of pre-tax income.

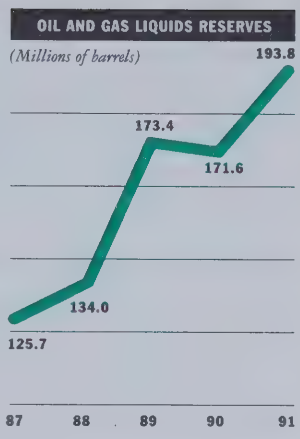
Capital Spending

Capital expenditures excluding the major acquisitions of Skelgas Group Incorporated and Westmin Resources Limited for the last three years are:

(Millions of dollars)	1991	1990	1989
Oil and Gas Operations			
Canada	$125.6	$124.9	$ 75.1
United States	65.6	70.4	57.3
Australia	19.4	32.3	35.4
Other international	21.2	8.6	5.9
Total oil and gas	231.8	236.2	173.7
Propane Marketing	26.0	21.6	17.0
	257.8	257.8	190.7
Acquisitions Net of Dispositions			
Oil and gas	35.7	31.6	9.9
Propane marketing	(10.4)	—	3.1
	$283.1	$289.4	$203.7

Although capital spending had been initially budgeted at $338 million for 1991, this target was revised downwards as oil prices and, accordingly, cash flows declined. In Canada, expenditures were maintained at 1990 levels, although Norcen's exploration program reduced its focus from natural gas projects on account of deteriorating gas markets. Major projects

included follow-up exploration and development activity at Enchant in southern Alberta, Golden in north-central Alberta, and Deep Devonian projects in west-central Alberta in the early part of 1991. Exploration and development successes, together with revisions to prior years' reserves, resulted in additions to both liquids and natural gas reserve volumes in excess of those volumes lost through production and without taking into account reserves added through acquisition.



United States exploration expenditures were down $7.8 million from 1990 while development expenditures were up $3.0 million. An encouraging gas discovery on Eugene Island Block 162 was made which awaits final testing in early 1992 to determine whether a development project is economic. Onshore development focused on oil completions while offshore producing facilities were installed at Eugene Island Block 142 and U.S. $5.9 million was spent to complete the acquisition of a 4.5% interest in the Lion Rock Unit, offshore California. As a result of this acquisition, 19.0 million barrels of oil and gas liquids and 17.2 billion cubic feet of gas were added to U.S. proven reserves, based on studies which indicate this is an economically viable project to commence once regulatory and environmental issues are agreed to by local, state and federal authorities.

Other international exploration expenditures were up $14.1 million while development was down $1.5 million. $11.2 million was spent in Australia on seven wells which were drilled without success. Norcen now plans to scale down its future exploration activity in Australia. The other major areas of expenditure internationally were Malaysia ($6.8 million), where two out of three wells were considered commercially successful, Egypt ($3.1 million), on two wells, of which one is still drilling, Indonesia ($6.8 million) where a major seismic study is underway, and Argentina ($3.5 million) on exploration related to lands acquired in 1990 including the drilling of one well. In international development, the Jabiru venture was refitted and brought back on production after a five-month lapse, and construction of the Skua Venture floating production facility was completed with production commencing in December 1991.

Propane marketing capital expenditures were $26.0 million in 1991 of which $5.3 million was in the U.S. and $20.7 million in Canada. As part of its consolidation strategy Superior sold the fertilizer operation, which it had acquired with the acquisition of Skelgas, for $10.4 million.

The 1992 capital program of $259 million, which had been approved by the Board of Directors in early December, has now been reduced to $208 million in view of recent and significant reductions in projected oil and natural gas prices and therefore in available cash flow. The revised level of spending anticipates $185 million allocated to oil and gas programs and $23 million to propane marketing requirements. Of the planned outlays on oil and gas, $78 million will be directed towards exploration activity, $105 million to development programs and $2 million to other needs.

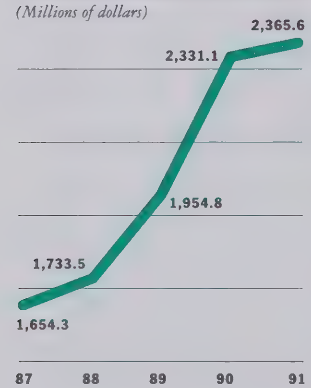
In North America, the prime focus of the exploration effort will be on oil and gas liquids prospects in the Western Canadian Sedimentary Basin and in the U.S. Gulf Coast region. Internationally, the Company will be directing its emphasis to activity in new core areas, including Malaysia, Indonesia and Argentina. Exploration in Australia will be reduced due to the lack of drilling success in recent years. The reductions have been principally directed at exploration budgets in order to maintain activity on development projects to enhance the Company's production levels and cash flows. The budget excludes the oil and gas property acquisitions which have recently been announced in the U.S. and in Argentina. These transactions for U.S. $39 million and U.S. $9 million, respectively, are expected to close in the first quarter of 1992.

Liquidity

Cash generated from the Company's operating activities totalled $279.2 million in 1991, a decrease of $76.9 million from 1990 and $21.5 million from 1989.

TOTAL CAPITALIZATION

(Millions of dollars)



Net cash available for investment, after dividends and working capital and other adjustments, was $198.0 million. After net capital and other expenditures of $284.3 million, the net cash deficiency amounted to $86.4 million. The shortfall was partially met through the draw down of the U.S. $30 million balance of the third Euroloan in April 1991, together with funds from the issuance of common shares under the employee savings plan. The residual balance of $44.9 million was funded by short-term debt which, net of cash on hand and short-term investments, stood at $37.6 million at December 31, 1991.

As of year-end, Norcen had $227 million of lines of demand bank credits established, of which $177.3 million is available for future draw down.

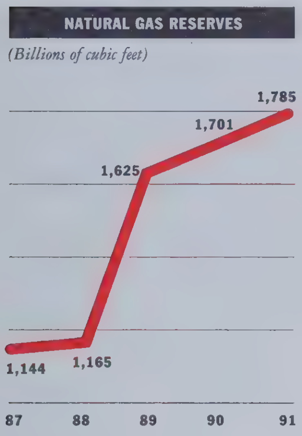
In addition to the requirement to fund the pending acquisitions of approximately $57 million, Norcen's immediate financing requirement will be to fund the retraction of the 8.12% First Preference Shares, Series A, on March 1, 1992. Holders of $89.6 million of the $100 million issued have served retraction notice. While these repayments can adequately be met by the lines of credit available, Norcen intends to secure further long-term financing to meet these needs and to restore the full amount of lines currently available. Several possible financing alternatives are presently being examined.

Norcen's risk exposure to floating interest rates was limited at year-end to the Euroloan borrowings and demand bank credits. The three Euroloans amounting to U.S. $405 million have interest rates which are tied to the London interbank borrowing rate until their maturities from 1995 through 1997. However, the interest rate on U.S. $200 million of these has been fixed through floating to fixed rate interest swaps.

Risks and Uncertainties

Norcen, as with all other companies in the oil and gas industry, is affected by factors both within and without its control. Partially under Norcen's control is its ability to replace its reserves at an economic cost from either exploration and development or by property acquisitions. This ability is gauged by the annual determination of proven reserves and ceiling test measurements. At December 31, 1991, the future revenues from Norcen's proven reserves were substantially

in excess of the underlying costs in all three operating centres and in the enterprise test for its worldwide operations. Although the Company has been successful in economically replacing its reserves in the past, this is not an indication of its ability to succeed in the future.



The future success of the Company is also dependent on the trends for oil and natural gas prices. There has already been a slide in oil prices from 1991 to those prevailing in early 1992. Future unsettling factors which could adversely affect price levels are a continuation of low world demand, a resumption of crude oil exports from Kuwait and Iraq on the world markets, the uncertainty of oil exports from the former Soviet Union, and the ability of the Organization of Petroleum Exporting Countries ("OPEC") to control price levels by exercising production restraints. Although Norcen projects an average U.S. $19.50/bbl for WTI crude in 1992, it fully expects the situation and price to remain volatile. The impact on Norcen's earnings and cash flow from changes in oil and gas prices and changes in the exchange rate between the Canadian and U.S. dollar are:

(Millions of dollars)	Net Earnings	Cash Generated from Operations
U.S. $1.00/bbl increase in WTI	$10.8	$16.7
10 cents U.S./mcf in gas price	$ 5.4	$ 7.5
One cent U.S. decrease in value of the Canadian dollar	$ 1.5	$ 1.8

The effect on cash flow is greater than on net earnings because Norcen and most of its oil and gas operating subsidiaries are not presently subject to current income taxes. There is also much uncertainty in the gas marketing area due to the over-supply situation and regulatory disputes between Canada and the U.S. which are affecting the natural gas export markets.

Overall Outlook

Based upon the previously stated assumptions regarding production and price forecasts, Norcen projects net earnings to decline in 1992. Gains can be expected from the Propane Marketing Division but, despite increases in production volumes, these will be offset by declining earnings from the Oil and Gas Division, due to expected decreases in natural gas and oil prices as well as additional non-cash charges. Cash flows could also be down marginally from 1991 levels although Norcen will continue to live within its means by limiting capital spending. Norcen's strategy to meet these challenges is to reduce costs on all fronts, including its capital, operating, administration and financing costs.

Norcen has an extensive selection of attractive areas for oil and gas exploration in its landholding position, both in North America and in the international arena. By focusing on fewer and lower risk projects, the Company expects to improve its exploration and development results.

CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31 *(Thousands of Canadian dollars except per share amounts)*	1991	1990	1989
SALES AND OTHER REVENUES			
Oil and gas	$459,037	$ 548,444	$427,101
Propane marketing	465,737	435,108	349,444
Mineral resources	41,704	42,482	57,380
Investment and other revenues	15,967	21,367	11,141
	982,445	1,047,401	845,066
COSTS AND EXPENSES			
Production, operations and administration	356,914	314,847	261,293
Product purchases	240,141	241,500	173,376
Depreciation, depletion and amortization	211,300	191,476	156,508
Interest on long-term debt	82,980	76,538	63,663
Other financial expense	(2,416)	(2,896)	3,418
Income taxes (Note 11)	49,108	95,181	75,512
Minority interests in subsidiaries	354	1,567	1,083
	938,381	918,213	734,853
NET EARNINGS	$ 44,064	$ 129,188	$110,213
DIVIDENDS ON PREFERENCE SHARES	$ 14,826	$ 16,867	$ 8,120
EARNINGS APPLICABLE TO ORDINARY SHARES	$ 29,238	$ 112,321	$102,093
EARNINGS PER ORDINARY SHARE			
Basic	$0.49	$1.90	$1.74
Fully diluted	$0.49	$1.56	$1.49

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31 *(Thousands of Canadian dollars)*	1991	1990	1989
BALANCE AT BEGINNING OF YEAR	$619,115	$539,425	$466,706
Net Earnings	44,064	129,188	110,213
	663,179	668,613	576,919
Dividends (Note 10)			
Non-convertible Preference Shares	8,120	8,120	8,120
Convertible Preference Shares	6,706	8,747	
Ordinary Shares			
—Multiple Voting	16,628	15,087	13,681
—Subordinate Voting	19,344	17,544	15,693
	50,798	49,498	37,494
BALANCE AT END OF YEAR	$612,381	$619,115	$539,425

The accompanying notes are an integral part of these consolidated financial statements.

As at December 31 *(Thousands of Canadian dollars)*	1991	1990
ASSETS		
CURRENT ASSETS		
Cash	$ 12,065	$ 7,253
Income and other taxes receivable	2,768	
Accounts receivable	165,181	197,346
Inventories	35,606	41,672
Total current assets	215,620	246,271
INVESTMENTS (Note 4)	247,436	246,430
PROPERTIES, PLANT AND EQUIPMENT (Note 5)	2,488,651	2,407,256
OTHER ASSETS (Note 6)	98,622	102,989
	$3,050,329	$3,002,946
LIABILITIES		
CURRENT LIABILITIES		
Demand bank credits (Note 7)	$ 49,691	
Accounts payable and accrued charges	149,578	$ 191,094
Income and other taxes		14,841
Current maturities on long-term debt	4,329	2,887
Total current liabilities	203,598	208,822
NON-CONVERTIBLE LONG-TERM DEBT (Note 8)	541,931	508,872
CONVERTIBLE SUBORDINATED DEBENTURES (Note 9)	543,336	547,292
DEFERRED REVENUES AND OTHER	17,500	23,220
DEFERRED INCOME TAXES	463,569	439,857
MINORITY INTERESTS IN SUBSIDIARIES	19,123	19,183
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 10)		
First Preference Shares	200,000	200,000
Ordinary shares—Multiple Voting	141,452	137,496
—Subordinate Voting	307,439	299,089
RETAINED EARNINGS (Note 10(c))	612,381	619,115
	1,261,272	1,255,700
	$3,050,329	$3,002,946

Approved by the Board:

J. R. Yarnell
Director

B. D. Cochrane
Director

The accompanying notes are an integral part of these consolidated financial statements.

Years ended December 31 *(Thousands of Canadian dollars)*	1991	1990	1989
OPERATING ACTIVITIES			
Net earnings	$ 44,064	$129,188	$110,213
Add non-cash items:			
Depreciation, depletion and amortization	211,300	191,476	156,508
Deferred income taxes	23,711	39,001	33,582
Other	137	(3,522)	399
Cash generated from operations	279,212	356,143	300,702
Deferred gas revenues	(7,988)	(11,427)	(9,366)
Decrease (increase) in working capital*	(22,462)	3,216	7,014
Total cash generated	248,762	347,932	298,350
Dividends	50,798	49,498	37,494
Net cash available	197,964	298,434	260,856
INVESTING ACTIVITIES			
Expenditures on properties, plant and equipment, net	283,064	289,369	203,197
Acquisition of Skelgas Group Incorporated (Note 2)		181,853	
Acquisition of the oil and gas assets of Westmin Resources Limited (Note 3)			453,235
Investments	656	96,388	(272,472)
Other	605	1,358	6,142
	284,325	568,968	390,102
Excess (deficiency) of cash before external financing	(86,361)	(270,534)	(129,246)
FINANCING ACTIVITIES			
Non-convertible long-term debt	33,132	173,105	(105,642)
Convertible subordinated debentures	(3,956)	(1,249)	249,525
Preference and ordinary shares	12,306	106,268	8,555
	41,482	278,124	152,438
CHANGE IN CASH AND DEMAND BANK CREDITS	(44,879)	7,590	23,192
CASH AND DEMAND BANK CREDITS AT BEGINNING OF YEAR	7,253	(337)	(23,529)
CASH AND DEMAND BANK CREDITS AT END OF YEAR	$ (37,626)	$ 7,253	$ (337)

*Working capital excludes cash, demand bank credits and current maturities on long-term debt.
The accompanying notes are an integral part of these consolidated financial statements.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Norcen Energy Resources Limited and its subsidiaries and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include some amounts that are based on management's best estimates. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the financial statements.

In fulfilling their responsibilities, management of Norcen and its subsidiaries maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are timely, accurate and reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit Committee, consisting solely of non-executive directors. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. Both internal and external auditors have full access to the Audit Committee, with and without the presence of management.

The financial statements have been audited by Peat Marwick Thorne, Chartered Accountants, and their report follows.

Barry D. Cochrane
President and Chief Executive Officer
February 19, 1992

Paul H. Palmer
Senior Vice-President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Norcen Energy Resources Limited

We have audited the consolidated balance sheet of Norcen Energy Resources Limited as at December 31, 1991 and 1990 and the consolidated statements of earnings, retained earnings, and changes in financial position for each of the years in the three year period ended December 31, 1991. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1991 and 1990 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1991 in accordance with generally accepted accounting principles.

Peat Marwick Thorne, Chartered Accountants
Calgary, Canada—February 3, 1992

(Tabular amounts are in thousands of Canadian dollars except where noted.)

1 Accounting Policies

The Annual Information Form and the accompanying consolidated financial statements have been prepared by Management and approved by the Board of Directors. The consolidated financial statements have been prepared according to Canadian generally accepted accounting principles applied on a consistent basis and comply with United States disclosure requirements in all material respects. The principles used were those judged by Management to be the most appropriate in the circumstances.

Basis of Presentation

The consolidated financial statements include the accounts of Norcen and all of its subsidiaries. Norcen's business is organized into three operational segments: oil and gas, propane marketing and mineral resources. Certain prior years' comparative figures have been reclassified for comparative purposes.

Foreign Currency Translation

Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at rates in effect at the dates the assets or liabilities were acquired. Sales and other revenues and costs and expenses are translated at the average rate of exchange during the month incurred. The resulting gains and losses are included in earnings. Any foreign exchange gains or losses arising on translation of long-term monetary assets and liabilities are deferred and amortized over their remaining term.

Inventories

Inventories are valued at the lower of cost, applied on a first-in first-out basis, and market value determined on the basis of replacement cost or net realizable value.

Properties, Plant and Equipment

Oil and Gas—Oil and gas properties and production equipment, in accordance with the full cost method of accounting, include expenditures related to the acquisition, exploration and development of oil and gas reserves, whether or not potentially productive. These costs are depleted and depreciated, on a country-by-country cost centre basis, using the unit of production method based on total estimated proved recoverable reserves. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content. Proceeds on sale of properties are credited to asset costs.

Capitalized costs in each cost centre are limited to estimated undiscounted future net revenues (based on year-end prices) plus the net cost of major development projects and unproved properties (the ceiling test). An enterprise ceiling test is also conducted on a worldwide basis, taking into account future interest costs, administrative costs and income taxes attributed to oil and gas operations.

Certain oil and gas related facilities and equipment are recorded at cost and depreciated over their estimated useful service life at various rates using the straight-line method. Estimated useful life of major classes of assets are:

Oil and gas equipment	10 years
Gas processing facilities and pipelines	30 years

Commencing in 1991, provision for future site restoration costs is accrued for by a charge against income using the unit of production method.

Propane Marketing—Propane marketing equipment is recorded at cost and depreciated over the estimated useful service life using the straight-line method. Estimated useful life of major classes of equipment are:

Tanks and cylinders	20 years
Truck chassis	7 years
Truck tank bodies	10 years

Goodwill is amortized over 40 years and non-compete agreements are amortized over the terms of the agreements.

Mineral Resources—Mineral resources properties are recorded at cost less impairment. The costs are amortized against related production over a period not exceeding 40 years.

Deferred Revenues and Other

Deferred revenues and other include payments received under take-or-pay gas contracts, net deferred foreign exchange gains and the accrued liability for future site restoration costs. Deferred gas revenues are included in revenue as the gas to which the payments relate is delivered. Deliveries, which are to be made over a ten-year period, commenced in 1984, and are governed by contractual arrangements.

Earnings per Ordinary Share

Earnings per ordinary share have been calculated using the weighted average number of ordinary shares outstanding during the year (59,917,000 in 1991; 59,267,000 in 1990; 58,752,000 in 1989). Fully diluted earnings per ordinary share assumes the exercise of all rights to acquire ordinary shares which have a dilutive effect.

2 Skelgas Group Incorporated

Effective August 31, 1990, Norcen acquired, through its 100% owned subsidiary, Superior Propane Inc. ("Superior"), all of the outstanding shares of Skelgas Group Incorporated ("Skelgas") for cash consideration of $181,853,000. The acquisition was accounted for by the purchase method and is summarized as follows after giving effect to working capital adjustments:

Net assets acquired, at fair values:	
Working capital	$ 7,139
Properties, plant and equipment, net	84,954
Goodwill	71,693
Non-compete agreements	18,627
Long-term debt	(560)
	$181,853

The results of operations of this acquisition have been included in the consolidated statements of earnings from September 1, 1990.

3 Westmin Resources Limited

On November 30, 1989, Norcen acquired substantially all of the oil and gas assets of Westmin Resources Limited ("Westmin"), a related company, for total consideration of $453,235,000, comprised of $250 million 8% convertible subordinated debentures and cash of $203,235,000. As part of the transaction, Norcen sold its interest in M.A. Hanna Company to Brascan Limited, a related company, for $213,000,000. The acquisition was accounted for by the purchase method and is summarized as follows:

Net assets acquired, at fair values:	
Working capital	$ 2,057
Properties, plant and equipment	456,263
Other assets	256
Deferred gas revenues	(5,341)
	$453,235

The results of operations of this acquisition have been included in the consolidated statement of earnings from December 1, 1989.

4 Investments (at cost)

December 31	1991	1990
Brascan Limited Shares — preference (i)	$ 65,000	$ 65,000
Iron Ore Company of Canada Shares — common	53,310	53,310
Mico Investments Ltd. Shares — common (i)	80,000	80,000
Varitech Investors Corporation Shares — preference	20,000	20,000
Notes receivable from directors, officers and employees	13,034	11,613
Other investments (ii)	16,092	16,507
	$247,436	$246,430

(i) Related company.

(ii) At December 31, 1991, the Company held a certificate of deposit of U.S.$205,000,000 (U.S.$210,000,000 at December 31, 1990) with a major international bank. This was offset by a note payable to that bank totalling U.S.$195,000,000 (U.S.$200,000,000 at December 31, 1990). The deposit and note are both due May 30, 1994, and bear similar rates of interest (net interest income of $865,000 in 1991; $881,000 in 1990; $464,000 in 1989). The Company is entitled to, and intends to, repay the note either on maturity or earlier thereto by delivery of an equal amount under the certificate of deposit.

Dividend and interest income from investments was $22,317,000 in 1991 ($27,538,000 in 1990; $26,559,000 in 1989), including dividends from related companies of $10,050,000 ($13,238,000 in 1990; $5,555,000 in 1989). Dividend income of $6,350,000 in 1991 ($6,171,000 in 1990; $15,482,000 in 1989) is included in mineral resource revenues.

5 Properties, Plant and Equipment

	Oil and Gas	Propane Marketing	Mineral Resources	Total
December 31, 1991				
Cost	$3,331,431	$366,753	$190,135	$3,888,319
Accumulated depreciation and depletion	1,259,785	99,970	39,913	1,399,668
Net	$2,071,646	$266,783	$150,222	$2,488,651
December 31, 1990				
Cost	$3,065,315	$357,948	$190,146	$3,613,409
Accumulated depreciation and depletion	1,092,092	78,866	35,195	1,206,153
Net	$1,973,223	$279,082	$154,951	$2,407,256

Expenditures relating to undeveloped or unevaluated properties excluded from the depletion base are as follows:

	United States	Australia	Other International	Total
1991	$34,102	$ —	$70,411	$104,513
1990	$22,371	$3,736	$49,373	$ 75,480

Administrative overhead expenditures of $12,230,000 in 1991 ($10,646,000 in 1990; $9,899,000 in 1989) directly related to exploration and development activities have been capitalized.

6 Other Assets

December 31	1991	1990
Goodwill, net of amortization	$69,325	$ 69,891
Non-compete agreement, net of amortization	15,001	17,978
Financing expense, net of amortization	8,187	9,596
Advances on development	6,109	5,524
	$98,622	$102,989

7 Demand Bank Credits

Demand bank credits and unused lines of credit are as follows:

December 31	1991		1990	
	Average Interest Rate	Amount	Average Interest Rate	Amount
Banker's acceptance	5.1%	$ 28,890		
Commercial paper	4.6%	20,801		
		49,691		
Unused bank lines of credit at period end		177,309		$227,000
Established bank lines of credit		$227,000		$227,000

8 Non-Convertible Long-Term Debt

December 31	1991	1990
Term bank credits,		
1995–1998 (i)	$461,453	$425,528
12¾% debentures, 1993	60,000	60,000
Capital lease obligations (ii)	24,230	25,520
Other	577	711
	546,260	511,759
Less: current maturities	4,329	2,887
Total non-convertible long-term debt	$541,931	$508,872

The above balance includes non-convertible long-term debt before current maturities of $468,337,000 at December 31, 1991 ($435,658,000 at December 31, 1990), denominated in United States dollars, translated at rates of exchange at the balance sheet date.

Non-convertible long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1992 are as follows:
1993—$60,094,000; 1994—$83,000;
1995—$144,510,000; 1996—$50,137,000.

(i) Three term bank credit lines have been established in the European market, amounting to U.S.$405,000,000, all of which was drawn down as of December 31, 1991. A line of U.S.$125,000,000 was established in 1988 which requires repayment in full on November 10, 1995 and two lines were arranged in 1990: U.S.$150,000,000 to be repaid in full on June 30, 1997; and U.S.$130,000,000 which requires six equal semi-annual principal repayments commencing April 23, 1996. By way of interest rate swap arrangements, the effective interest rate on U.S.$150,000,000 of these loans has been fixed at 8.9% until December 1997 and a further U.S.$50,000,000 has been fixed at 7.7% until August 1995.

A currency and interest rate swap agreement remains in place whereby the Company receives $50,000,000 and related interest at bankers' acceptance rate plus 0.5% in exchange for payments by the Company of U.S.$37,585,500 and related interest at 7.85%. The offsetting principal amounts will be repaid in four equal semi-annual installments until July, 1993.

The average annual costs of indebtedness under these lines of term bank credits for 1991, 1990 and 1989 were 7.8%, 8.9% and 9.1% respectively.

Unamortized deferred foreign exchange gains on long-term debt were $4,479,000 at December 31, 1991 ($7,392,000 at December 31, 1990).

(ii) Interest rates on capital lease obligations vary with the Canadian prime rate and averaged 11.0% at December 31, 1991, and 10.5% at December 31, 1990.

Future minimum lease payments under capital lease obligations total $31,705,000. Payments required under these leases for each of the next five years are as follows:
1992—$9,604,000; 1993—$7,030,000;
1994—$4,961,000; 1995—$3,770,000;
1996—$2,260,000.

9 Convertible Subordinated Debentures

December 31	1991	1990
Series A (i)	$143,336	$147,292
Series B (ii)	150,000	150,000
Series C (iii)	250,000	250,000
	$543,336	$547,292

(i) The Adjustable Rate Convertible Subordinated Debentures, Series A, due December 15, 2006, pay a minimum of 6% per annum and are convertible at the holder's option into Multiple Voting Ordinary Shares on or before the earlier of December 14, 2006, and the last business day prior to redemption, at an initial conversion price of $15.50 per share. If, subsequent to December 31, 1991, Norcen fixes the interest rate at 7% per annum, the conversion price increases to $17.25 per share. The convertible debentures are redeemable, without restriction, at the principal amount plus accrued interest, if any. The convertible

debentures are direct unsecured obligations of Norcen, subordinate to other indebtedness of Norcen for borrowed money, but ranking equally with all other subordinated indebtedness.

(ii) The Adjustable Rate Convertible Subordinated Debentures, Series B, due March 30, 2007, pay a minimum of 5% per annum and are convertible at the holder's option into Multiple Voting Ordinary Shares on or before the earlier of March 29, 2007, and the last business day prior to redemption, at an initial conversion price of $25.00 per share. If, subsequent to May 15, 1992, Norcen fixes the interest rate at 6% per annum, the conversion price increases to $27.75 per share. The convertible debentures are redeemable, without restriction, at the principal amount plus accrued interest, if any, after May 15, 1992, and at any time prior to this date at 105% of the principal amount plus accrued interest if at least 85% of the original principal amount of the convertible debentures have been converted. The Series B convertible debentures are direct unsecured obligations of Norcen, subordinate to other indebtedness of Norcen for borrowed money, but ranking equally with all other subordinated indebtedness.

(iii) The 8% Convertible Subordinated Debentures, Series C, due December 6, 1999, are convertible at the holder's option into Multiple Voting Ordinary Shares at any time before December 5, 1999, at an initial conversion price of $25.00 per share. The convertible debentures are redeemable, without restriction, at the principal amount plus accrued interest, if any, after November 30, 1994. The Series C convertible debentures are direct unsecured obligations of Norcen, subordinate to other indebtedness of Norcen for borrowed money, but ranking equally with all other subordinated indebtedness.

(iv) At the option of the Company, if the Company is not in default on any of its indebtedness, the payment on maturity of the principal outstanding on each of the Convertible Subordinated Debentures Series B and C may be made by the delivery of that number of Multiple Voting Ordinary Shares of the Company, obtained by dividing such outstanding principal amount by the average closing trading price of the Multiple Voting Ordinary Shares on The Toronto Stock Exchange for the 10 days prior to the maturity date.

(v) Of the Convertible Subordinated Debentures, $60,000,000 of each of Series A and Series B and all of Series C are held by Noranda, Inc., a major shareholder of the Company.

10 Capital Stock

A. Authorized

The authorized share capital of the Company consists of an unlimited number of First Preference Shares, issuable in series; an unlimited number of Junior Preference Shares, issuable in series; an unlimited number of Multiple Voting Ordinary Shares; and an unlimited number of Subordinate Voting Ordinary Shares.

B. Issued

First Preference Shares	Non-Convertible First Preference Series A		Convertible First Preference Series B	
	Shares	Amount	Shares	Amount
December 31, 1989	4,000,000	$100,000		
Issued for cash			100	$100,000
December 31, 1990	4,000,000	100,000	100	100,000
December 31, 1991	**4,000,000**	**$100,000**	**100**	**$100,000**

Non-convertible Preference Shares

The 8.12% First Preference Shares, Series A, are non-voting and pay a fixed cumulative cash dividend of $2.03 per share per annum. Under the terms of the issue and as of the January 15, 1992 deadline, 3,582,858 shares were tendered for retraction on March 1 at the issue price of $25.00 per share. The remaining First Preference Shares, Series A, will be redeemable in whole or in part at the option of the Company on or after March 1, 1992, at a price of $26.00, such price declining by $0.25 per annum until March 1, 1996, after which they are redeemable at the issue price of $25.00 per share.

Convertible Preference Shares

On February 1, 1990, the Company issued, through private placement, $100,000,000 of Floating Rate Cumulative Redeemable Convertible Auction Perpetual First Preference Shares, Series B. The Convertible Shares are non-voting and pay a floating cumulative cash dividend until February 28, 1993, at a rate per annum equal to 72% of the one month Bankers' Acceptance Rate. Thereafter, the dividend rate will be established either by negotiation with the holders or through monthly auctions. Each share is convertible at any time at the option of the holder into Subordinate Voting Ordinary Shares, at a price based on a formula related to the market value of such Subordinate Voting Ordinary Shares at the time of conversion, unless previously redeemed by the Company. The Convertible Shares are redeemable at any time at the option of the Company at par plus accrued and unpaid dividends.

Ordinary Shares

The two classes of ordinary shares rank equally with each other and after all preference shares of Norcen with respect to priority on the payment of dividends. Each Multiple Voting Ordinary Share carries five votes and each Subordinate Voting Ordinary Share carries one vote. At the holder's option, Multiple Voting Ordinary Shares are convertible into Subordinate Voting Ordinary Shares, on a one-for-one basis, at any time. Subordinate Voting Ordinary Shares are convertible into Multiple Voting Ordinary Shares, on a one-for-one basis, only in certain limited circumstances.

Ordinary Shares	Multiple Voting		Subordinate Voting	
	Shares	Amount	Shares	Amount
December 31, 1988	27,352,333	$135,782	31,285,425	$285,180
Issued for cash				
Employee savings and investment plan			184,669	3,950
Executive share purchase plan			175,973	4,130
Incentive stock option plan			19,833	
Conversions and exchanges	30,493	471	51,208	804
December 31, 1989	27,382,826	136,253	31,717,108	294,064
Issued for cash				
Employee savings and investment plan			209,072	5,019
Incentive stock option plan			22,069	
Conversions and exchanges	79,379	1,243	1,200	6
December 31, 1990	27,462,205	137,496	31,949,449	299,089
Issued for cash				
Employee savings and investment plan			247,489	5,450
Executive share purchase plan			149,004	2,900
Incentive stock option plan			37,088	
Conversions and exchanges	255,199	3,956	25	
December 31, 1991	27,717,404	$141,452	32,383,055	$307,439

Pursuant to the Company's Incentive Stock Option Plan, market growth options are issued to selected employees, none of whom are executive officers. Of the underlying security, the Subordinate Voting Ordinary Shares of the Company, the number of unoptioned shares available at January 1, 1991, and December 31, 1991, for the granting of options was 114,018 and 2,129,612, respectively. If all options had been exercised at December 31, 1991, 5,846 Subordinate Voting Ordinary Shares would have been issued.

C. Dividend Restrictions

Covenants respecting certain of Norcen's non-convertible long-term debt impose a limit on dividend payments by Norcen, such limit being related in part to consolidated net earnings, as defined. Under the most restrictive of these covenants, retained earnings in the amount of $392,000,000 were available for the payment of dividends at December 31, 1991.

11 Income Taxes

The provision for income taxes in the consolidated statement of earnings varies from the amounts that would be computed by applying the Canadian federal statutory rate, including surtax, to earnings before income taxes and minority interests for the following reasons:

Year ended December 31	1991	1990	1989
Earnings before income taxes and minority interests	$ 93,526	$225,936	$186,808
Canadian federal statutory rate of income tax	38.84%	38.84%	38.84%
Computed tax expense	$ 36,326	$ 87,754	$ 72,556
Increase (decrease) in income taxes resulting from:			
Alberta Royalty Tax Credit	(2,907)	(3,475)	(4,783)
Provincial income taxes in excess of federal abatement	1,717	6,234	6,353
Non-taxable dividend income	(6,981)	(8,327)	(9,660)
Non-deductible crown payments less federal resource allowance	4,133	(1,129)	21
Large Corporations Tax	3,260	2,076	1,116
Non-deductible capital loss			3,963
Non-deductible depletion	6,910	5,677	691
U.S. withholding tax on dividends received	2,251	2,263	1,591
Other items, net	4,399	4,108	3,664
Actual income tax expense	$ 49,108	$ 95,181	$ 75,512
Effective tax rate	52.51%	42.13%	40.42%

Deferred income taxes result from timing differences between the recognition of income and expenses for income tax and for financial statement purposes. The source of these differences is principally exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation.

At December 31, 1991, the Company had United States tax loss carryforwards of approximately U.S.$152,000,000 (U.S.$179,000,000 in 1990; U.S.$117,000,000 in 1989), the tax benefits of which are not recognized in the financial statements. These loss carryforwards expire at various times throughout the period ending December 31, 2005.

12 Pension Plans and Other Benefits

Norcen and its wholly-owned subsidiaries, Superior Propane Inc. and Norcen Explorer Inc., have defined benefit pension plans covering most employees. The benefits provided by these plans are based on the employee's years of service and on the highest average earnings for a specified number of consecutive years. The Company makes annual contributions to the plans based on the results of actuarial valuations. The plan assets consist primarily of equity and fixed income securities.

The net pension expense arising from these plans is as follows:

		1991		1990		1989
Service cost — benefits earned during the year		$ 6,323		$ 5,159		$ 4,446
Interest cost on projected benefit obligation		6,711		6,440		5,365
Expected return on plan assets:						
Actual return	(16,601)		1,625		(17,931)	
Less deferred portion (i)	(9,700)	(6,901)	8,502	(6,877)	(12,136)	(5,795)
Amortization of unrecognized amounts (i)		(612)		(401)		(204)
Gain on plan settlements		(653)				
Net pension expense		$ 4,868		$ 4,321		$ 3,812

(i) Deferred amounts are amortized on a straight-line basis over the expected average remaining service life of the relevant employee group.

The funded status of the plans and the liability as recognized in the Balance Sheet at December 31, 1991 and 1990, were:

	1991	1990
Accumulated benefit obligation including vested amounts of $69,402,000 ($66,027,000 in 1990)	$ 70,739	$ 69,093
Unearned benefit obligation related to projected pay increases	39,343	32,738
Projected benefit obligation	110,082	101,831
Plan assets, at fair value	122,886	106,012
Excess of plan assets over projected benefit obligation	12,804	4,181
Unrecognized prior service cost and plan initiation	4,322	4,640
Unrecognized net gain	(10,833)	(5,078)
Unrecognized net transition surplus	(8,127)	(6,218)
Net accrued pension asset (liability)	$ (1,834)	$ (2,475)

Projected benefit obligations and the expected return on plan assets are based on an assumed rate of 6.5%. Projected pay increases reflect an assumed rate of 5%.

Under United States accounting recommendations issued by the Financial Accounting Standards Board (FASB), projected benefit obligations would be calculated at a 9% rate, resulting in a projected benefit obligation of $72,095,000 at December 31, 1991, and $68,556,000 at December 31, 1990.

13 Operating Leases

Future minimum lease payments under operating lease obligations total $39,488,000. Payments required under these leases for each of the next five years are as follows:
1992—$7,937,000; 1993—$6,404,000;
1994—$4,649,000; 1995—$4,062,000;
1996—$3,697,000.

14 Related Party Transactions

At December 31, 1991, a term note investment totalling U.S.$143,040,000 was offset by a note payable to a related company of an identical amount. Both notes bear identical interest rates and mature on July 22, 1992. The Company is entitled to, and intends to, repay the note on maturity by delivery of the term note investment.

15 Segmented Information

A. Financial Data by Geographic Segment

	Canada	United States	Australia	Other International(i)	Total
1991					
Sales and other revenues	$ 787,973	$140,949	$ 53,523	$ —	$ 982,445
Operating income (loss)	$ 133,296	$ 990	$ 24,054	$ (217)	$ 158,123
Capital expenditures	$ 175,181	$ 67,252	$ 19,374	$ 21,257	$ 283,064
Identifiable assets	$2,310,846	$567,500	$ 96,097	$ 75,886	$3,050,329
1990					
Sales and other revenues	$ 903,006	$ 68,316	$ 76,079	$ —	$1,047,401
Operating income (loss)	$ 232,429	$ (5,035)	$ 50,817	$ —	$ 278,211
Capital expenditures	$ 176,802	$253,426	$ 32,357	$ 8,637	$ 471,222
Identifiable assets	$2,291,259	$554,029	$106,515	$ 51,143	$3,002,946
1989					
Sales and other revenues	$ 762,257	$ 38,350	$ 44,459	$ —	$ 845,066
Operating income (loss)	$ 215,704	$ 2,227	$ 30,119	$ (5,302)	$ 242,748
Capital expenditures	$ 556,287	$ 58,803	$ 35,387	$ 5,955	$ 656,432
Identifiable assets	$2,134,112	$343,296	$ 92,514	$ 41,433	$2,611,355

(i) Norcen has operations in New Zealand, Papua New Guinea, Malaysia, Argentina, Chile, Egypt, Algeria and Indonesia.

B. Financial Data by Business Segment

Year ended December 31	1991	1990	1989
OIL AND GAS			
Sales and other revenues (i)	$ 471,600	$ 557,942	$ 432,203
Operating costs	197,027	179,129	146,122
Depreciation and depletion	175,336	164,286	134,354
Operating income	$ 99,237	$ 214,527	$ 151,727
PROPANE MARKETING			
Sales and other revenues	$ 465,737	$ 435,108	$ 349,444
Operating costs (i)	405,445	379,507	286,447
Depreciation	30,996	22,197	17,149
Operating income	$ 29,296	$ 33,404	$ 45,848
MINERAL RESOURCES			
Sales and other revenues	$ 41,704	$ 42,482	$ 57,380
Operating costs	7,146	7,209	7,202
Depreciation and depletion	4,968	4,993	5,005
Operating income	$ 29,590	$ 30,280	$ 45,173
CONSOLIDATED TOTAL			
Operating income			
Oil and gas	$ 99,237	$ 214,527	$ 151,727
Propane marketing	29,296	33,404	45,848
Mineral resources	29,590	30,280	45,173
	158,123	278,211	242,748
Investment and other revenues	15,967	21,367	11,141
	174,090	299,578	253,889
Interest and other financial expense	80,564	73,642	67,081
Income taxes	49,108	95,181	75,512
Minority interests	354	1,567	1,083
	130,026	170,390	143,676
NET EARNINGS	$ 44,064	$ 129,188	$ 110,213
CAPITAL EXPENDITURES			
Oil and gas	$ 267,441	$ 267,737	$ 636,310
Propane marketing	15,623	203,485	20,122
	$ 283,064	$ 471,222	$ 656,432
IDENTIFIABLE ASSETS			
Oil and gas	$2,185,351	$2,089,893	$2,020,733
Propane marketing	454,951	498,653	268,453
Mineral resources	218,385	223,859	228,059
Corporate	191,642	190,541	94,110
	$3,050,329	$3,002,946	$2,611,355

(i) Includes inter-segment sales and purchases of $12,563,000 in 1991 ($9,498,000 in 1990; $5,102,000 in 1989).

Years ended December 31 *(Millions of Canadian dollars except per share items)*	1991	1990	1989	1988	1987
Sales and Other Revenues					
Oil and gas	$ 459.0	$ 548.4	$ 427.1	$ 359.0	$ 393.5
Propane marketing	465.7	435.1	349.5	314.4	288.3
Mineral resources	41.7	42.5	57.4	48.0	42.1
Investment and other revenues	16.0	21.4	11.1	10.1	10.8
	982.4	1,047.4	845.1	731.5	734.7
Costs and Expenses					
Production, operations and administration	356.9	314.9	261.3	227.8	212.9
Product purchases	240.1	241.5	173.4	158.4	152.2
Depreciation, depletion and amortization	211.3	191.5	156.5	141.1	127.0
Interest and other financial expense	80.6	73.6	67.1	52.7	67.7
Income taxes	49.1	95.2	75.5	59.1	73.9
Minority interests	0.3	1.5	1.1	0.7	1.8
	938.3	918.2	734.9	639.8	635.5
Net Earnings	$ 44.1	$ 129.2	$ 110.2	$ 91.7	$ 99.2
Dividends on Preference Shares	$ 14.8	$ 16.9	$ 8.1	$ 8.1	$ 16.0
Earnings Applicable to Ordinary Shares	$ 29.2	$ 112.3	$ 102.1	$ 83.6	$ 83.2
Cash Generated from Operations	$ 279.2	$ 356.1	$ 300.7	$ 244.2	$ 266.7
Per Ordinary Share					
Earnings before extraordinary item					
—basic	$ 0.49	$ 1.90	$ 1.74	$ 1.43	$ 1.60
—fully diluted	$ 0.49	$ 1.56	$ 1.49	$ 1.24	$ 1.38
Cash flow from operations					
—basic	$ 4.41	$ 5.72	$ 4.98	$ 4.04	$ 4.81
—fully diluted	$ 3.23	$ 4.14	$ 4.02	$ 3.30	$ 3.75
Dividends paid	$ 0.60	$ 0.55	$ 0.50	$ 0.50	$ 0.50
Market price—year-end					
Multiple voting	$ 23.50	$ 25.25	$ 25.38	$ 18.88	$ 18.38
Subordinate voting	$ 22.25	$ 22.88	$ 24.25	$ 17.13	$ 15.50
Capital Expenditures					
Oil and gas	$ 267.5	$ 267.7	$ 636.3	$ 221.9	$ 118.8
Propane marketing	15.6	203.5	20.1	32.2	25.6
Mineral resources					(0.5)
	$ 283.1	$ 471.2	$ 656.4	$ 254.1	$ 143.9

Years ended December 31 *(Millions of Canadian dollars)*	1991	1990	1989	1988	1987
Capitalization					
Long-term debt (excluding current maturities)	$ 541.9	$ 508.9	$ 319.0	$ 429.5	$ 409.1
Convertible subordinated debentures	543.3	547.3	548.5	299.0	299.4
Minority interests	19.1	19.2	17.6	16.5	15.2
Preference shares	200.0	200.0	100.0	100.8	102.0
Ordinary shareholders' equity	1,061.3	1,055.7	969.7	887.7	828.6
	$2,365.6	$2,331.1	$1,954.8	$1,733.5	$1,654.3
Assets					
Properties, plant and equipment (net)	$2,488.7	$2,407.3	$2,223.3	$1,719.8	$1,603.5
Total assets	$3,050.3	$3,002.9	$2,611.4	$2,315.1	$2,233.6
Oil and Gas					
Production (before royalties)					
Crude oil and natural gas liquids *(thousands of barrels per day)*	54.5	56.8	47.1	44.9	42.1
Natural gas *(millions of cubic feet per day)*	251.2	247.5	203.9	182.5	152.8
Sulphur *(long tons per day)*	83	80	89	86	82
Gas gathering and transmission sales *(millions of cubic feet per day)*	51.7	55.2	62.6	66.0	51.1
Oil gathering and transmission throughput *(thousands of barrels per day)*	76.2	77.9	79.0	83.2	87.5
Reserves (before royalties)					
Oil and gas liquids *(millions of barrels)*	193.8	171.6	173.4	134.0	125.7
Natural gas *(billions of cubic feet)*	1,785	1,701	1,625	1,165	1,144
Sulphur *(thousands of long tons)*	788	743	969	580	490
Land holdings					
(millions of gross acres)	43.3	31.1	26.0	16.8	14.3
(millions of net acres)	14.2	10.5	8.1	4.2	3.6
Propane Marketing					
Propane sales *(millions of litres)*	1,534.9	1,353.8	1,312.6	1,255.5	1,108.4
Mineral Resources					
Iron Ore Company sales—on which Norcen earns a royalty *(millions of tonnes)*					
Iron ore pellets	7.8	8.9	10.0	9.8	8.9
Concentrates and other	7.5	5.6	5.2	5.0	4.1
	15.3	14.5	15.2	14.8	13.0
Employees at Year-end	3,272	3,579	2,574	2,400	2,300

Directors

Douglas G. Bassett, O.C.[4]
Toronto, Ontario
President and
Chief Executive Officer,
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Edward G. Battle[1 5]
Calgary, Alberta
Chairman of the Board

Conrad M. Black, O.C.[5]
Toronto, Ontario
Chairman and
Chief Executive Officer,
Argus Corporation Limited

G. Montegu Black[3]
Toronto, Ontario
Chairman and President,
Txibanguan Limited

Barry D. Cochrane[1]
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President and
Chief Executive Officer

Jack L. Cockwell
Toronto, Ontario
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Brascan Limited

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Montreal, Quebec
Partner, Stikeman, Elliott

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Quebec City, Quebec
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DRM Holdings Inc.

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Calgary, Alberta
Partner,
Bennett Jones Verchere

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Brascan Limited

Hon. W. John McKeag[2 4]
Winnipeg, Manitoba
President,
McKeag Realty Ltd.

Alfred Powis, O.C.[1 3]
Toronto, Ontario
Chairman,
Noranda Inc.

E. Courtney Pratt[3 4]
Toronto, Ontario
Senior Vice-President,
Human Resources and
Strategic Planning,
Noranda Inc.

Clifford A. Rae, Q.C.[2]
Calgary, Alberta
Director of
various companies

John R. Yarnell[2]
Toronto, Ontario
President,
Yarnell Companies Inc.

Officers

Edward G. Battle
Chairman of the Board

Paul M. Marshall
Deputy-Chairman
of the Board

Barry D. Cochrane
President and
Chief Executive Officer

Paul H. Palmer
Senior Vice-President and
Chief Financial Officer

Wayne M. Newhouse
Senior Vice-President,
Exploration and
International Development

D. K. Bruce Fenwick
Senior Vice-President,
Production

Gordon B. Singer
Vice-President and
Comptroller

Dale R. Dolphin
Vice-President,
International Exploration

George V. Kenda
Vice-President,
Corporate Development
and Marketing

Douglas W. Palmer
Vice-President,
Development

John A. Paul
Vice-President,
Administration

J. Gerhard Schopp
Vice-President,
Operations

Craig D. Allen
Secretary

Edward A. Leew
General Counsel

D. Stephen Muir
Treasurer

Robert J. Breen
Assistant Treasurer

[1] Executive Committee
[2] Audit Committee
[3] Compensation Committee
[4] Pension Committee
[5] Nominating Committee

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Resources Limited
715 Fifth Avenue Southwest
Calgary, Alberta
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Facsimile: (403) 231-0187

Significant Subsidiaries
Labrador Mining and
Exploration Company
Limited[1]
Norcen Explorer, Inc.[2]
Norcen International Ltd.[4]
Norwest Oil & Gas Corp.[4]
Prairie Oil Royalties
Company, Ltd.[5]
(74 per cent owned)
Skelgas Propane, Inc.[2]
Superior Propane Inc.[3]

[1] Newfoundland company
[2] Delaware company
[3] Federal company
[4] Alberta company
[5] Saskatchewan company

Transfer Agents and Registrars
Ordinary Shares
The Royal Trust Company,
Toronto, Calgary, Montreal,
Regina, Winnipeg and
Vancouver
Mellon Securities Trust
Company, New York

Preference Shares
The Royal Trust Company,
Toronto, Calgary, Montreal,
Regina, Winnipeg and
Vancouver

Stock Exchange Listings and Symbols
Toronto and Montreal Stock Exchanges
Multiple Voting Ordinary
Shares: NCN
Subordinate Voting
Ordinary Shares: NCN.A
First Preference Shares,
Series A; NCN.PR.F

American Stock Exchange
Multiple Voting Ordinary
Shares: NCN
Subordinate Voting
Ordinary Shares: NCN.A

Trustees
12¾% Unsecured
Debentures, Series A
due August 15, 1993
Montreal Trust Company
of Canada

Adjustable Rate
Convertible Subordinated
Debentures, Series A
due December 15, 2006
The Royal Trust Company,
Calgary

Adjustable Rate
Convertible Subordinated
Debentures, Series B
due March 30, 2007
The Royal Trust Company,
Calgary

Auditors
Peat Marwick Thorne
Chartered Accountants

Annual Meeting
The annual meeting of shareholders will be held in the Glenbow Theatre at the Calgary Convention Centre, 120–9th Avenue Southeast, Calgary, Alberta, on Tuesday, April 21, 1992 at 10:00 a.m. local time.
Shareholders are encouraged to attend the meeting, but those unable to do so are asked to sign and return the form of proxy mailed with this report.

40-F Report
A copy of the Company's Form 40-F filed with the United States Securities and Exchange Commission will be sent to any registered shareholder upon written request to the Company Secretary.

Investor Relations
For the benefit of shareholders, members of the investment community and others requiring additional detailed information on Norcen, a Statistical Supplement to the annual report is being published. Copies will be available upon request from Ron Burrows, Manager, Investor Relations at (403) 231-0107.

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